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the MANAGEMENT REVIEW

NOVEMBER, 1949

AMONG THE FEATURES

Make Up Your Mind

Socialism—The American Pattern

European Recovery and the American Economy

Employees Aid in Supervisory Training

The Outlook in Labor-Management Relations

The Human Factor in Quality Production

Tell Employees Why Costs Must Be Cut!

How Shippers Can Hold Down Costs

Tax Problems of Incentive Compensation Plans

A Survey of Unions' Financial Reporting

Uniform Retirement Benefits and Pension Cost

- PERSONNEL
- PRODUCTION
- OFFICE MANAGEMENT
- MARKETING
- FINANCE
- INSURANCE
- PACKAGING
- BOOKS OF THE MONTH

AMERICAN MANAGEMENT ASSOCIATION

AMA CONFERENCE ON Financial Management Problems

THE WALDORF-ASTORIA, NEW YORK CITY

DECEMBER 1-2, 1949

The New Importance of Profits

When AMA asked the members of its Finance Division what subjects should be discussed at the December Finance Conference, the hundreds of companies that responded advised overwhelmingly that the following picture needed clarification:

The swiftly changing economic kaleidoscope on the domestic and international scene now throws a new responsibility upon management—a responsibility that falls most heavily on the shoulders of the *finance officer*. For upon him is management dependent for the vital controls and the critically important information that are essential to ultimate profit.

This meeting of the Finance Division, therefore, is being planned to keep the finance officer appraised of developments that inevitably must affect his company's profits—and his responsibility for contributing to them.

A conference for members only. Attendance is open to executives whose companies are members of AMA or who hold an individual membership in their own name.

AMONG THE TOPICS

THE FINANCE OFFICER IN THE FUTURE AMERICAN ECONOMY

FINANCING INDUSTRIAL PENSIONS

WORLD TRADE AND THE AMERICAN CORPORATION

KEEPING ON THE PROFIT BEAM

HOW THE DUPONT ORGANIZATION APPRAISES ITS PERFORMANCE

THE OUTLOOK IN TAXES

"MEANING WHAT?"—A DRAMATIC SKETCH ABOUT PENSIONS

MANAGEMENT INFORMATION FOR THE PROFESSIONAL INVESTOR

AMERICAN MANAGEMENT ASSOCIATION

330 WEST 42nd STREET, NEW YORK 18, N. Y.

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THE MANAGEMENT REVIEW is published monthly by the American Management Association at 330 West 42nd Street, New York 18, N. Y., at sixty cents per copy or six dollars per year. Vol. XXXVIII, No. 11, November, 1949. Entered as second-class matter March 26, 1925, at the Post Office at New York, N. Y., under the Act of March 3, 1879.

Changes of address should be forwarded to the publishers *one month in advance*, and postal unit numbers should be included in all addresses.

The object of the publications of the American Management Association is to place before the members ideas which it is hoped may prove interesting and informative, but the Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

An index to THE MANAGEMENT REVIEW is published annually with the December number. The contents are also indexed in the *Industrial Arts Index*.

the MANAGEMENT REVIEW

Volume XXXVIII

No. 11

NOVEMBER, 1949

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Printed in U. S. A.

CONTENTS

GENERAL MANAGEMENT

- Make Up Your Mind (This Week Magazine)**..... 598
Socialism—The American Pattern (By Emerson P. Schmidt)..... 600
European Recovery and the American Economy (By Lewis H. Brown)..... 604
Six Essentials of a Modern Dynamic Economy (By William J. Kelly)..... 608
 ALSO: Do You Worry Efficiently?; Specification for Today's Leaders; Odd Jobs

OFFICE MANAGEMENT

- Know the Employee Before Training the Supervisor (The Office)**..... 612
Building a Sound Records Retention-Disposal Program (NOMA Forum)..... 614
 ALSO: Salaries of Office Workers in Five Midwestern Cities; The Road to Success; It's a Living

PERSONNEL

- The Outlook in Labor-Management Relations (By Paul H. Douglas)**..... 617
Paid Vacations on Increase Throughout Industry (Labor Information Bulletin)..... 621
Guiding Rules for Employee-Management Communication (Transmitting Information Through Management and Union Channels)..... 623
 ALSO: An Effective Two-Way Communication Technique; Baby Sitter Service for Employees; An Idea!

PRODUCTION MANAGEMENT

- Getting Employee Cooperation for Quality Production (The Dartnell Corporation)**..... 625
Tell Employees Why Costs Must Be Cut! (Factory Management and Maintenance)..... 629
 ALSO: Industrial Research Pays Off

MARKETING MANAGEMENT

- How Shippers Can Hold Down Costs (Modern Industry)**..... 631
Using Samples to Build Acceptance and Sales (Printers' Ink)..... 633
 ALSO: Retail Stores Surveyed on Current Employment Practices

FINANCIAL MANAGEMENT

- Some Tax Problems of Incentive Compensation Plans (Fortune)**..... 635
A Survey of Unions' Financial Reporting (Harvard Business Review)..... 639
 ALSO: New Jersey Agency Study Provides Interesting Cost Figures

INSURANCE

- Effect of Uniform Retirement Benefits on Pension Cost (Central Hanover Pension Bulletin)**..... 641
 ALSO: States Improve Workmen's Compensation Laws; Pension Rolls Mount for Employers; Expenditures for Hospital Care Show Sharp Increase

General Management

Make Up Your Mind

IF you have trouble making up your mind, scientists are worrying about you. If you think you have no trouble making up your mind, they're still worrying about you, since it's possible to be glaringly indecisive and never suspect it.

Leading doctors, psychologists, and industrial engineers all recognize indecisiveness as one of the most widespread and dangerous afflictions of modern times.

How dangerous?

Dr. Lydia Giberson, well-known industrial psychiatrist, says four out of five nervous breakdowns have their roots in worry and indecision.

Medical researchers have found that indecision and the anxiety that usually accompanies it may cause far-reaching physiological changes in your body tissues and muscles, may be underlying causes of serious diseases, including heart trouble, high blood pressure, stomach ulcers and allergies.

And industrial engineers say that indecisiveness can ruin your chances of running a successful business or getting ahead in somebody else's business.

Recently, the president of a toy company was worried about declining profits. He called in a top industrial engineer, asked him to locate the source of the trouble.

Within a week, the engineer was pointing an accusing finger at the president himself. Seems he had inherited the company from his father, an aggressive, imaginative man who had

built up the business. The son, far from being a chip off the old block, was apparently unable to make sharp decisions or formulate a positive company policy. He never brought out a new line until after he had seen another company do so. His merchandising policy was so wishy-washy that neither salesmen or buyers knew what to expect from one week to the next.

Industrial consultant Daniel Starch studied several hundred business executives and concluded: "There is one requirement without which no man can be an executive, even a mediocre one. And that one is making decisions."

How do you tell whether you're indecisive? Take a sharp look at yourself, then confirm or deny the following:

1. In a restaurant, you usually wait to see what the others are going to eat before you make a choice.
2. You frequently return purchases a few days after making them.
3. You're set in your ways and get upset by the prospect of change. You prefer following a similar routine day after day, in dressing and eating and working, and can't abide people with irregular, unpredictable habits.
4. You're afraid of making mistakes, and generally prefer to do nothing rather than risk failure or error.
5. You feel that other people—your boss, your wife, your children—don't give you all the respect you deserve and don't reward you sufficiently for

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what you do for them. Indecisive people often feel they're getting a raw deal.

6. You're tired much of the time, even in the morning.

If your answers are predominantly yes, then you probably are not as decisive as you should be. Your first step in overcoming it is to find out why you're indecisive.

You may think the causes of anybody's indecisiveness are quite obvious: Mr. X can't decide how to solve a particular problem because he's got too many problems to solve and too little time to solve them in. Or Mr. Y can't make up his mind what to do because he's faced with two equally tantalizing prospects. He doesn't know which to pick.

The catch is, though, that if you took away all Mr. X's problems but one, you'd find that he still wouldn't be able to make up his mind about that one. And if you presented Mr. Y with just one inviting choice, he'd still hem and haw and hunt around for someone to tell him what to do. Here's why:

Your power to make a decision about any situation does not depend on the difficulty or complexity of the situation itself. It depends first of all on your confidence in your ability to make the right choice. Your trouble in choosing between two or more alternatives—whether it's what to order in a restaurant, which side of the street to walk on or whom to marry—begins because you're basically afraid that you won't make good, no matter what you do.

According to Dr. Luther E. Woodward, field consultant for the National Committee for Mental Hygiene, many indecisive people lack confidence for this reason: when they were children they were never given enough opportunity to make choices for themselves. Mother, father, or teacher fell into the

habit of making all decisions for them, thus depriving them of essential practice in sizing up situations and people, and taking constructive action. After a few years of this, they come to feel that they are basically incapable of deciding things for themselves and are very uncomfortable about trying it.

If you want to overcome indecisiveness, Dr. Woodward suggests you "remember that the feeling that you cannot make decisions is an emotional habit largely borrowed from the past and need no longer exist. Many people have more capacity for choice than they think they have."

In other words, to break the habit of indecisiveness, start by telling yourself that you will be able to work out your problems yourself. Start making decisions at the first opportunity, and then the new habit will begin to grow.

Dr. Woodward cautions you, though, not to test your ability to make choices by driving yourself to make split-second decisions on major issues. First, even after much practice, it's wise to take plenty of time to work out crucial choices, and perhaps to discuss your problem with an authority in the particular field. Second, start becoming decisive by trying to make choices in small things.

If you're like most indecisive people, you're torn by indecision over several things at once. They may range from whether to get a new job, a wife, or a new place to live, to whether to buy a red tie or a blue one, or whether to get pork or veal for tomorrow's dinner.

Take one of your lesser problems, look closely at your two—or more—alternatives, and pick the first one that comes into your mind.

You'll soon find out an important fact about making everyday decisions: There is rarely only one right choice.

Most of the time either alternative would be equally good. So just pick one and forget about the other.

When it comes to making important life-or-death decisions, here are suggestions which may help you make sharp, fruitful choices:

1. Write your problem down precisely, like a telegram.

2. Tackle only one problem at a time. Even Einstein can't solve several problems at once.

3. Study your problem to see whether it's really worth worrying about. If it isn't, don't waste your energy.

4. When a problem is important, see how much time you have. If there's

no rush, talk it over with an authority on that subject.

5. Before you try to do anything about a problem, make sure you get all available facts about the situation. Then make a list of all alternative solutions; consider each one in turn, weighing its pros and cons. Pick the one that seems best, and try to forget the others.

6. Take these steps one at a time, and don't worry about step No. 2 till you've finished step No. 1. When you break down a big problem into small parts, you'll find it isn't such a big problem after all.

—BY AMY SELWYN. *This Week Magazine*, October 9, 1949, p. 16:2.

Socialism — The American Pattern

MANY people are still confused as to the meaning of November 2, 1948. The actions of the 81st Congress since then, both in what it has digested and what it has rejected, leave us confused more as to the speed than as to the direction. Where are we headed? Is the country going socialist? Is there a new virus, "controlism," which has a high incidence among politicians? Are we in for an over-all planned economy? What is pushing our society into these strange molds?

As recently as 1850, over half the national income came from self-employment. Today, four out of every five gainfully occupied people are wage earners. We have become a nation of wage-workers. In the early days, the outlook, the values, and the customs of capitalists, business proprietors and farmers set the tone of the political life of the country unchallenged. Today, capitalism is living on a backlog of mores and beliefs built up in an earlier and differ-

ent environment. Like all backlogs that are not replenished, this one must run out in time.

The universal franchise, the march of technology, and the shift of population into the great urban centers have fostered the rise of the political power of the urban masses. Our society is passing through one of the great transformations of history, such as occurs *only once* every two or three hundred years.

From now on, we are likely to have a "labor" government. If not in name, it will be so in fact. This is true of the Federal Government and is likely to be largely true at the state and local levels. We must learn to adapt ourselves and our thinking and our economic structure to this new situation.

Does this mean socialism? Probably, but not in the short-run. The labor movement in this country is the only important labor movement in the world that is not socialistic. Private property is deeply entrenched and respected. The

labor leaders are *for* private property. They have considerable reservation about turning everything over to Washington. Yet this does not mean that labor leaders and their political spokesmen, in and out of the government, believe in a free market economy.

What is a free market economy? It is one under which the individual is free, within his means and ability, to become self-employed, a job-maker, or a job-seeker. It is one under which the instruments of production are privately owned by millions of individuals. It is one under which the expectation of profit—self-gain—directs both the worker and capital. It is one under which scarcity reflects itself in rising prices, which in turn lures additional manpower and resources into the areas where wages are best and profit anticipations are strongest, thereby overcoming scarcities. It is a system under which, when coupled with effective antitrust legislation, the march of science and new technology, inevitably translates itself into ever greater output per man-hour and a higher and richer standard of living for all. Wholesale prices, for example, in 1930 were at the same level, according to the official price index, as they were in 1840, 90 years earlier; but meantime, average wages increased by 700 per cent. Labor unions were few and relatively weak in that period. No one planned for this improvement in the standard of living.

But this rise in real income for all groups is the end product of a free, dynamic, progressive society. Under this system, we have some 4 million separate business establishments, outside of agriculture, each of them anxious to survive and most of them anxious to grow. When we add these to the 6 million separate business centers where new ideas, new methods and new products may be tried, we have 10 million centers of initiative and enterprise.

It is inconceivable that any other system for organizing human effort could ever outproduce our system. It is inconceivable that such a system, given a favorable political climate, could ever stagnate for any length of time.

Why, then, is our economic system under attack? Why is it in the process of transformation?

Unquestionably, the pain and suffering of the depression of the 1930's account greatly for the accelerated revolution that is upon us. But its roots go deeper. They are found in our educational system and in the role of the intellectual in our society, as in any society. William S. Schlamm, in his important book, *The Second War of Independence* (1940), states:

... It is simply untrue that Nazism, Bolshevism, and Fascism are the predestined reply to the appeal of hungry, unemployed, indebted farmers and underpaid toilers. Contrary to the general consensus of opinion, all brands of totalitarianism (and especially Bolshevism) are not social expressions of economically distressed underdogs, but rather diseases prevalent among rather well-fed intellectuals. ... A serious statistical checkup would certainly disclose that on the editorial staffs of metropolitan newspapers, among college teachers, among the stars of stage and screen, among successful writers and among students whose generous monthly allowance is regularly remitted by well-to-do parents, there is relatively fifty times more totalitarian lunacy (particularly of the Stalinist type) than among the poverty-stricken Okies, the needleworkers or unemployed miners. ...

It is safe to predict, however, that when we get the society hoped for by these intellectuals, they will pounce upon, criticize, and destroy it by dissolving through perpetual criticism, the cement, the *mystique*, which might otherwise hold it together. They will do this—because that is their occupational pay dirt—unless by that time those in authority will have taken them in hand, as all authoritarian systems have had to take their intellectuals in hand.

Today in Washington, we are reaping what we have sown in the past two decades. What is happening in Washington? Basically, two things: (1) A powerful drive is on further to socialize not property but incomes. (2) A well-coordinated program is on to displace the free market as the guide to our economic activities with a system of administrative directives, which appear destined to end in an authoritarian system on the ground that the free market is too harsh and ruthless and is not necessary any more.

Within the past generation, several powerful weapons have been forged for leveling and socializing incomes. Here are a few:

The "progressive" income tax—based on the so-called "ability to pay theory," which means that so long as Brown has more income left *after* taxes than Black, Brown still has further ability to pay more taxes. The logical conclusion of this tax philosophy is the final equalization of all incomes.

Driving down the interest rate—the cutting in half of interest rates by means of what is called "monetary and fiscal policy," a subject a little complicated and subtle but something we should study a little more. Lord Keynes was the father of this engineered, artificially low interest rate which reduces the earning power of capital and savings. This transfers a greater portion of the earnings of capital to low-income groups. This low-interest-rate policy puts the government in competition with all private lenders, forcing down interest rates all around—a leveling process affecting everyone.

Variable federal grants-in-aid. In the hospital construction law, the amount of federal grants to the different states is based in part on average per capita incomes within the state, the bigger slice going to those states where incomes are

lowest. The people in the "rich" states thus pay the hospital construction costs of the people in the "poor" states. In earlier years federal grants, such as for the aged, the blind and dependent children, were based on some uniform or equal matching principle. Today it is rare for a federal grant-in-aid bill to be introduced in Congress without a so-called variable grant-in-aid, the amount of the grant varying inversely with the per capita income among the different states.

Estate and inheritance taxes. Finally, what the government can't get during your lifetime it can get when *rigor mortis* sets in and your executors begin to look over what's left.

These are a few of the ways by which income is being equalized.

This makes a pattern that is hard for the politician to resist. Why should the voters not vote themselves a slice of other people's income every two years or at least every four years?

H. L. Mencken, the sage of Baltimore, once said that if the politician found that he had cannibals among his constituents, he would promise them missionaries for their Sunday dinner.

It is not hard to find some *moral* justification and *economic* argument for the program outlined above. Throughout our Anglo-Saxon history and traditions, there has always run a pronounced egalitarian strain. We have always taken care of people "in need," a term now taking on new elasticity! The Declaration of Independence emphasizes that we are all created equal. The Constitution prohibits class distinction based on hereditary titles. We reacted strongly against the feudal caste system. Early in our history we supported universal, compulsory common-school education. We were committed to the doctrine of the equal start.

Later, this same set of ideas was commonly referred to as "equality of opportunity." We felt that if every child were educated, and there were no legal or other artificial barriers, we would all have this equal start. Then each should be entitled to keep whatever he could earn.

The program here outlined, of course, goes far beyond these earlier ideas of equal opportunity, an equal start, and preventing monopoly. The battle against inequalities, it is said, now needs additional deterrents.

The *economic* sanction placed behind this drive toward the equalization of income runs in terms of boom-bust problems and full employment. Although this rests on tenuous ground, let's take a look at it.

It is said that business profits and individual incomes above the consumption level are spent more slowly than wages, social security, and similar types of income. The worker and social security beneficiary spend their incomes promptly, thereby returning the money to the income stream. It then can become income promptly to others and helps keep the economic machine rolling.

Savings, it is argued, whether earned by a business or an individual, tend to lie in "stagnant pools" in the banks or the treasuries of an insurance company for a time. When the business outlook is dim, these funds are hoarded, thereby deepening depression. So, if we are to assure full employment, full purchasing power and full production, we should shave off the big incomes and a good slice of profits.

This argument has some support among some economists. But all would agree that business depressions are caused and influenced by far more complicated factors and that this is alto-

gether too simple a view, a too facile *rationale*, of a highly technical and interdependent economic process.

Nevertheless, both on moral and economic grounds, the drive for leveling incomes has support or, as the logician would say, a *rationale* has been found. Those who would develop some stopping point to the socialization process need equally good or more potent counter-arguments and weapons. There are plenty of them but they don't get themselves publicized very well.

What can *you* do about it?

1. Keep your own house in order. Conduct yourself and your business affairs so that all basis for legitimate criticism is removed.

2. Support sound fiscal and monetary policy so as to remove the necessary elbow room which the over-all planners must have in order to convert our society into an authoritarian system.

3. Step up the educational process among the intellectuals and thought-starters. Don't support people whose aims or whose policies and actions will destroy our way of life.

4. Deepen your own understanding of how our economy has functioned during our history, and what it takes to keep it functioning in the interests of all groups which are committed to freedom and economic progress.

5. Deepen your sensitivity and feeling for the needs and strivings, both psychological and economic, of people in your community so as to find ways and means of attaining these needs *back home and in the community*.

These steps may help to take the pressure off Washington and help to perpetuate our freedom and our economic progress.

—From an address by Emerson P. Schmidt before the Pacific Coast Gas Association.

European Recovery and the American Economy

By LEWIS H. BROWN

Chairman of the Board

Johns-Manville Corporation

AS a result of devaluation, will inflation recur in Britain and other countries? What effect will devaluation have on us? What will the now widely prevalent bilateral agreements of foreign countries do to markets, sources of supply, living standards, and prices the world over? With our agricultural surpluses mounting to unprecedented levels, will Europe be able to earn sufficient dollars to take enough of these surpluses off our hands as before the war? And if she cannot, how much longer can we offer to *give* them away? These are the questions that currently underlie any consideration of the possible effects on our own economy of present-day conditions in Europe.

Devaluation of the pound sterling and other currencies was an essential step forward toward more sound international trade and financial relations. But these things depend upon deeper factors. We should not feel that devaluation in itself is a cure. It was necessitated by hard facts. The most important of these facts, of course, was the growing imbalance between production costs in North America and Europe.

Following the war, the United States economy remained fundamentally one of private enterprise. We continued to increase productivity and reduce or at least hold down unit production costs in relation to the changed value of the dollar. The reverse happened in most of Europe when production costs became loaded down with inflation and Socialism. As a result, the world markets increasingly turned to us. Another reason,

of course, was that the U. S. A. was producing, which was not true of Germany, England, Holland, Italy, and the other countries of Western Europe.

To meet this situation, Britain and many other countries announced a 30 per cent across-the-board price slash, for that is what the devaluation means. But devaluation cannot be a substitute for lowering European costs. If a devaluing nation today allows rising wages and prices to develop an inflationary spiral that further increases production costs, it will have lost all benefits of the devaluation.

What are the implications of this to us? First, we should never forget that Western Europe is important to us from a survival standpoint. We are in a cold war with the expanding, police-state empire of Communist Russia. We conceive Western Europe as a potential rampart between us and that empire. If Western Europe's living standards decline severely, the rampart may cave in.

But Western Europe is becoming extremely expensive to us. We have supported her living standards for more than a year at an annual rate of considerably over five billion dollars through the Marshall Plan alone. A year ago, it was assumed that we could confidently look forward to decreasing subsidies each year until 1953, when Europe would be able to stand on her own feet so that we could pull out. But today it is beginning to dawn on us that, unless we introduce drastically new policies, our subsidization of Europe may run on and on, year after year, at excessive and perhaps even

From an address delivered at the Fall Personnel Conference of the American Management Association.

increasing expense to the American taxpayer.

In fact, the dollar shortage which measures the insolvency of Europe has threatened to become permanent. We must do some constructive thinking and evolve entirely new ideas to handle the situation. So far, our program has largely consisted of giving away our products, as if Uncle Sam were some eternal Santa Claus and the American taxpayer a man with a bottomless purse.

But giving away our goods is no real solution to Europe's problem of insolvency. We begin to solve the problem only when we isolate and attack the causes instead of doctoring the symptoms. The huge dollar shortage of Europe is a symptom. Before the war, she was wholly self-supporting. What, therefore, are the causes that have changed this prewar situation so drastically?

Europe has become insolvent and a pensioner of North America because of the profound changes produced by the war.

In the first place, Europe's economic system has changed drastically. Before the war, all Europe except Russia was capitalistic, with free competition and low production costs. Today, however, most European countries are socialistic in varying degrees. They are hamstrung with every sort of restriction to free competitive enterprise. In almost every case they are devoted, not to full production, but to full employment at much higher wages and shorter hours than before the war. And their social services extend from the cradle to the grave. Since Europe cannot afford all these things, much of the expense is being shouldered by the American taxpayer.

The result of Europe's Socialism and repressed inflations is excessively high production costs. This makes it increasingly difficult for her to sell her goods in

the dollar countries, and elsewhere as well, except under umbrellas such as the bilateral agreements.

A second change brought by the war is the cutting of Europe in half by the Iron Curtain. There is very little today of that large, free exchange of goods that took place prewar between Eastern and Western Europe. The country that suffers most from this cleavage of Europe is Western Germany. With her population swollen by 10,000,000 refugees from her Eastern provinces, Western Germany has now a food deficiency of about 50 per cent. Thus she must import a far greater amount of food per capita from the Western Hemisphere than did the old Germany of 1938.

A third change has been the loss, or threatened loss, by Europe of her empire in Asia. Before the war, this empire in Asia supplied her with most of the dollars needed to buy in the American market.

A fourth change brought by the war has been the conversion of Europe from a creditor to a debtor area. Before the war, Europe, and England in particular, held huge investments in both North and South America and Asia. The dividend and interest payments on these investments could be immediately used for the purchase of food and raw materials from the Western Hemisphere.

But the war devoured these investments. They were thrown on the market for cash to purchase supplies for the war machines. When the investments were gone, very heavy debts were run up by Europe, not so much with us (we give our goods away) but with the Oriental countries, which are not addicted to that genial idiosyncrasy of ours. Today, India, instead of being England's heavy debtor as in prewar days, is Britain's creditor to the tune of over \$5,000,000,000 in sterling.

A fifth change brought by the war is

the greatly increased self-sufficiency of the Western Hemisphere, particularly the United States. Today North America is by far the world's greatest producer of food and natural and synthetic raw materials, and at the same time is the most highly developed industrialized area. It has therefore become steadily more difficult for the world to earn dollars by selling us manufactured goods or even raw materials.

What can be done to enable Europe to earn more dollars in the face of the realities that I have outlined? How can we stop playing Santa Claus while still holding Russia in check?

It is apparent that the Iron Curtain cannot be moved backward into Russia without a war. Europe cannot be given back her lost Asiatic empire, nor can she now be remade into a creditor area. But there is one important obstacle that Europe can overcome if she has the will and determination to do it.

Europe can do something about her high production costs that make her prices too high for competitive marketing in many lines in this and other countries. *The London Economist*, perhaps the world's outstanding economic periodical, recently suggested among other things that the British Government take steps to create the greatest possible measure of competitive conditions, to cut government costs and reduce taxation, to lift price controls and other restrictive measures, to abandon a cheap money policy and let interest rates find their level, and even to tolerate moderate unemployment, if necessary, to get full value for wages paid. If these policies were followed, Britain would be in a far better position to solve her crisis.

Yet this does not relieve us of our responsibilities. The fact remains that Europe cannot sell us her goods and services unless we are also prepared to

accept them. What can we do now to provide Europe with new opportunities to earn dollars?

The least we can do is to overhaul our tariff system thoroughly. Congress has set up a mechanism for reducing our tariffs and has given the President power to make large and important reductions. Has everything been done here that should be done? I doubt it very much.

It is said that our tariff level as a whole is practically back to 1914, but this is speaking in generalities. We have been talking too much about the tariff "as a whole" and have failed to get down to the brass tacks of specific products. I suggest that a commission of government officials and American business men be empowered to examine our rates in close detail with the deliberate purpose of providing foreign countries with greater opportunities to earn dollars where our industries can stand it.

For example, a plan might be developed to permit a generalized quota of imports duty free up to, say, 5 per cent of the physical quantities of the production of any American industry now having a protective or prohibitive tariff. Such a plan would not endanger either the price structure or wage rates of any American industry.

There are other ways for foreign nations to earn more dollars. Some may have merit, others are of doubtful value. But the important thing is for the United States of America to stop playing the role of Santa Claus—to stop giving away the output of our factories. We must be the military leader and the banker to the non-Communist world. But we must devise sound methods of doing this instead of following the New Deal pattern of "give away."

One other method might be a plan that would give a greater number of Americans a chance to see Europe. The

tourist industry is one of Europe's most effective dollar producers.

Finally, a very important source of dollars to some European countries in the past was the dollar remittances that foreign immigrants to the United States sent home. We have in this country a chronic shortage of certain kinds of labor, such as household and farm workers. This kind of labor increases the wealth of our country and its standard of living. Europe swarms with people eager and willing to come to America and do work of this sort. Should we allow a considerable number of selected immigrants to enter, restricted for a time to certain occupations, and paid good American wages—part of which would be in dollar remittances to their families? These people could receive temporary passports permitting them to stay for a few years or, in case they showed themselves desirable material for citizenship, they could become permanent citizens.

You will see certain difficulties with each of the ideas I have mentioned; I see them very clearly myself. But I also see how imperative it is that we draw on

our American resourcefulness to solve a problem that will become each year more pressing. The problem can be summarized in one sentence: Play Santa Claus forever *or* become economically isolated from the world *or* give foreign nations the maximum opportunity to *earn* dollars.

If these problems are not approached realistically and if definite steps are not taken to face realities, in my opinion, Europe and the United States are in for trouble that can well lead to disaster.

But, a start has been made toward stabilization.

The speed with which the pound sterling was devalued following the Washington talks is evidence of a determination to take hold of at least one of the horns of the dilemma. This move alone broke a tension that had been daily mounting. It lifted the veil of uncertainty. And, if followed by other and more fundamental measures, it can well be the turning point to mark a new era in European recovery. The next six or nine months or year will, in my opinion, determine the pattern of the next decade for all of us.

Do You Worry Efficiently?

WITH the busy season coming on, it might be well to set yourself straight on the subject of worry. If you must worry, why not do it efficiently? Nothing like having the habit well in hand.

H. Frank Smith, a New York advertising man, has hit on an idea that you may find helpful. He has originated what he calls the "Wednesday Worry Club." The plan is to enter your worries for each day on a slip of paper, then put the slip in a "Special Lucky Envelope until next Wednesday." Frank has designed a suitable slip for that purpose and will send you a supply if you write to him in care of Baldwin Paper Co., Inc., 233 Spring Street, New York 13, N. Y.

It's his way of trying to do some good in the world. He is motivated by Mark Twain's famous saying, "I am an old man and I have known a great many troubles, but most of them never happened."

Better hurry. Christmas is coming, so don't neglect worry tendencies any longer. It's so much easier when you have them well organized.

—*The Pick-Up* (United Parcel Service) 10/49

● TROUBLE is only opportunity in work clothes.

—HENRY KAISER

Six Essentials of a Modern Dynamic Economy

IN recent years the entire world has become acutely conscious of the need for improving its productive technology. For the so-called "backward" or "underdeveloped" countries, a rapid increase in production is a necessity if their governments are to allay social unrest and combat the insidious penetration of Communism. For the Soviet bloc, it is an essential both of prestige and of military potential in the struggle with the West. For the West, it is, by the same token, an indispensable condition for the maintenance of the industrial and military supremacy it still enjoys. The preservation of technological leadership has become, indeed, the condition of its very survival. It is a matter of life and death. Small wonder, therefore, that attention is now focused with anxious concern on the whole problem of technological progress, and on the conditions for the attainment and maintenance of a dynamic economy.

That the attainment of such an economy is no easy task is attested by the infrequency of its occurrence. In the long chronicle of human history, it has been the exception rather than the rule. That its preservation, once attained, is also difficult is equally evident. We have a modern example of this in the history of Great Britain over the past 50 years. The relative deterioration of British productivity over this half century, though it passed unnoticed over much of the period, has now become so serious it is a matter of acute concern to the government of that country. The United States is by no means immune to the degenerative processes that have sapped the vitality of British industry. Indeed, we appear in some respects to be following blindly along the same road. If we are to avoid following the

footsteps of Great Britain, we must understand the conditions necessary to a dynamic economy. In general, these may be considered to involve: a high level of education, wide diffusion of initiative, a strong system of incentives, an adequate supply of capital, extensive development of scientific and technical research and prompt application of technological advances.

It is impossible to operate, let alone to improve, a fully developed modern industrial technology without a high level of popular education, both technical and general. This fact has been repeatedly demonstrated by attempts to introduce even a single sector of modern technology into so-called "backward" countries. Let me quote from the latest annual report of the International Bank for Reconstruction and Development:

Perhaps the most striking single lesson which the Bank has learned in the course of its operations is how limited is the capacity of the underdeveloped countries to absorb capital quickly for really productive purposes. There are many reasons why development is necessarily a gradual process. Of fundamental importance is the low level of education and health prevailing in most underdeveloped countries. Without intelligent skill and vigorous manpower the economic progress of any country is likely to be slow however amply it may be endowed with natural resources and however substantial the assistance of foreign capital.

One of the reasons for the backwardness of British productive technology as compared with our own strikes the investigator at once. We have approximately 10 times as many college and university students in proportion to our population as does Great Britain, and an even higher ratio in the technical branches of education. There can be no doubt that the large annual influx of educated youth into American

industry has greatly stimulated and vitalized it, both at the technical and at the managerial levels.

Certainly the maintenance and enlargement of our trained manpower is one of the basic conditions of a dynamic economy and should be, accordingly, a primary concern of social policy.

It has been stressed by many writers that one of the fundamental advantages of a competitively organized economy is the multiplication of centers of independent initiative and innovation. We have in this country nearly 10 million business enterprises, counting agriculture, nearly four million excluding agriculture. There can be no doubt that this dispersion of initiative among millions of independent concerns provides the basis for a more creative, hence more dynamic, economy than any socialist bureaucracy can provide, with its centralization of authority, its red tape, its buck-passing, its addiction to safety and conformity. This is not to say, of course, that wide diffusion of initiative is of itself sufficient to secure a dynamic society. History records entire eras, even entire civilizations, so dominated by custom and tradition that innovation was lacking despite a multiplicity of economic units. While it is not a guarantee of progress, however, it is an almost indispensable condition which it should be the unremitting concern of public policy to preserve.

We cannot maintain a dynamic economy without a strong system of incentives. Taken by and large, human beings will not work to the limit of their potentialities without strong incentives. This the Communists rediscovered after several years of floundering. They have deliberately created an incentive system which, in terms of differential rewards for labor, is far

stronger than we now enjoy, at least after the income tax has taken its toll. Their discovery should be a warning to us that we cannot continue to impair incentives without impairing likewise the vitality of our economic system. We must maintain the incentives to effort by an adequate graduation of rewards for labor, and incentives to risk-taking by preserving the opportunity to make—and even more important, to keep—a profit commensurate with the risk.

An adequate supply of capital is a fourth requisite to the maintenance of a dynamic economy. Almost the entire world is suffering today from a capital scarcity, and is looking to the United States to make up the deficiency. That we are today short of venture capital is attested by the extraordinary difficulty of raising equity money. The great hazard to the accumulation of venture capital and its commitment to risky investment is the excessive taxation of business enterprises and of the larger personal incomes, where the bulk of venture capital is generated. Here we appear to be following the course of Great Britain, the chief difference being that we have only recently arrived at a position she has maintained for a generation. According to one writer:

We can see a case of sterilization of the economy by taxation at an advanced stage in Britain where it has been practiced for a quarter of a century longer than here. So long as there were big accumulations from a rich past to be broken down, Britain could prosper by devouring her own substance. But she emerges from the war . . . with her competitive position hopelessly prejudiced by a generation of retarded industrial development; and unable to stage a recovery without what amounts to a charitable replenishment of her capital values. . . . If a society is to advance under its own steam it is fatal to remove, by taxation or otherwise, the incentives which lead men, in the hope of adequate rewards, to take the risks of embarking on untried ventures or deny them the means to do so.

Extensive development of scientific

and technical research and prompt application of technological advances are vital to the maintenance of a dynamic economy in the modern world. Industrial research in this country has developed to be a \$500,000,000 business annually and is growing by leaps and bounds. Yet no one can contend that industrial research has expanded to the limit of its economic potentialities in the United States. We anticipate an even greater expansion in the future and, accordingly, an even greater contribution to the dynamism of our economic system.

It is not sufficient that the technology of production advance in the laboratories or in design and development departments; it must be incorporated in the installed facilities of industry before it can contribute to increased output. Naturally, there is a lag between the installed capacity of industry and the best technology currently available. It is vital for progress, however, that this lag be held to the lowest limits that are economically justified.

A principal reason for tardiness in the application of new productive technology is the lack of a rational procedure for analyzing the replaceability of equipment. For the prevailing methods of analysis are not only unscientific but are predominantly weighted in favor of retarded replacement. The generally backward state of equipment policy in American industry can be laid, in my opinion, primarily at the door of top management, which has failed to take a serious and intelligent interest in the problem. The moral to management is clear: It is vital to the maintenance of a dynamic economy in the United States that we achieve high productivity and industrial efficiency. And it is vital to the attainment of high productivity and efficiency that management take steps to insure that the installed capacity of industry keeps pace with technological improvements.

—From an address by William J. Kelly before the Annual Meeting of the Conveyor Equipment Manufacturers Association.

Specification for Today's Leaders

NEARLY 100 years ago, Henri Frederic Amiel, Swiss poet and philosopher, wrote in his *Journal* a specification for the kind of leaders needed today in industry: "To know how to be ready is a great thing, a precious gift, and one that implies calculation, grasp, and decision. To be always ready a man must be able to cut a knot, for everything cannot be untied; he must know how to disengage what is essential from the detail in which it is enwrapped, for everything cannot be equally considered; in a word, he must be able to simplify his duties, his business, and his life. To know how to be ready, is to know how to start."

If ever a profound truth was written, it is Amiel's observation that "everything cannot be equally considered"; the essential must prevail. We need, right now, to simplify our thinking on the problems facing our businesses.

—*Management Briefs* No. 28 (Rogers & Slade)

● IN 1850, the population of the United States was 23,191,876. The number of gainfully employed was 7,700,000, or 33.2 per cent of the total. This 7.7 million included the farmers. In 1948, the population was 147,280,000, and of this number those gainfully employed totaled 60,134,000—or 40.8 per cent—not including the farmers.

—*The Employment Counselor* 9/49

Odd Jobs

A ROBBER, a pulpit man, and a banker are not always exactly what you think they are.

In the hard-coal mines, a robber rips out the pillars that hold up the mine roof after the coal is taken out. In a rolling mill, a pulpit man works in the control cabin. The logging industry doesn't give a banker much chance to grow fat. He has to haul timber on hand sleds to storage areas.

These are three of the 40,000 titles that describe 22,000 different jobs in the second edition of *The Dictionary of Occupational Titles*, recently published in two volumes by the U. S. Employment Service.

Flipping through the pages, executives are likely to come across a slew of titles that stump them—and a score or more that raise a chuckle. Like a bull nurse, for instance, who is a worker that takes care of shipment of livestock; or a road monkey who does maintenance on logging roads. A kiss machine operator, oddly enough, runs the machine that wraps candy kisses; a grizzly worker dumps ore from cars through an iron grating; and a horser-up hangs leather over saw horses.

The first dictionary came out in 1939; since then 75,000 copies have gone out to industry, government agencies, unions, colleges, and other organizations.

This year's version covers a lot of new ground. It lists jobs—like those in plastics and television—that were unheard of 10 years ago. Besides, it includes many jobs that have died out or will soon pass out of the picture. There has also been a change in the arrangement of the original material; the new edition does away with many cross-references, makes the book more useful as an aid in job classification and employment counseling.

Along with definitions, the dictionary has a code breakdown that shows relations between jobs and job groupings. It defines 250 industries and their specific jobs; there is also a glossary of terms and an index of common commodities sold at wholesale and retail.

You can get copies of the dictionary from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. The first volume, which consists of definitions only, costs \$3; the second volume, covering the remaining material, \$2.50.

—Business Week 5/7/49

● AN EXCELLENT PUBLIC RELATIONS IDEA that reaches employees and the public simultaneously has been put into practice by Thermoid Company, Trenton, N. J. Besides devoting a full page in the company publication to pictures of young graduates, Thermoid notifies grade and junior high school seniors that \$5 has been deposited in their names in a local bank. Senior high graduates get \$10 accounts.

—Texas Industry (The Texas Manufacturers Association) 10/49

MIDWINTER GENERAL MANAGEMENT CONFERENCE

The Midwinter General Management Conference of the American Management Association will be held on Wednesday, Thursday, and Friday, January 18-20, 1950, at the Hotel St. Francis, San Francisco.

Office Management

Know the Employee Before Training the Supervisor

A CANDID approach to supervisory education may go a long way toward fostering desirable attitudes in rank-and-file employees. Frank L. Rowland, executive secretary of the Life Office Management Association, remarked recently that "a common source of concern arises from the fact that management in many companies is handicapped in the promotion of good personnel policies because of the lack of complete acceptance or understanding at the employee level." Mr. Rowland pointed out that greater acceptance of management decisions could be made possible through emphasis on proper methods of supervisory development. Since the supervisor is often the most important if not the sole source of contact between management and the rank and file, he exerts a potent influence in determining the nature of basic employee attitudes.

Mutual Life Insurance Company of New York has achieved notable headway in the development of office supervisory talent through the medium of an employee attitude survey in which employees were requested to state their opinions of management practices. P-7 interpreting the results of this study, Mutual Life has developed a training program which seeks to upgrade clerical employees into supervisory jobs by giving them the type of background they most need.

Designed to promote better management-employee communication, Mutual Life's supervisory development pro-

gram consists of: (a) a series of periodic conferences between higher management and supervisory personnel; and (b) a number of principles which have been incorporated into a training manual.

Commenting on the importance to supervisory development of a knowledge of employee attitudes, Mutual Life's personnel director, George Wilgus, said: "No manual or supervisory training program can be practical without an honest and adequate appraisal of existing defects in supervision." Under the direction of Mr. Wilgus, Mutual's personnel division conducted a survey among employees to determine reaction to various phases of company management. Letters over the signature of the firm's executive vice president were sent out to all members of the home office staff, requesting their cooperation in completing the questionnaire for the employee opinion survey, and emphasizing that the purpose of the survey was to give the employees an opportunity to express, frankly and in complete confidence, their views concerning their positions, working conditions, and various other matters pertaining to employee welfare. To give employees complete self-assurance in answering questions, the letter stated that the filled-out questionnaires were to be mailed, unsigned, by the respondents directly to a designated outside tabulating organization, which would tabulate the results and return them to the company to be analyzed and translated into action.

Along with other employee matters which the survey attempted to measure, an evaluation was made as to the caliber of supervision currently received by rank-and-file employees. Each employee was asked to rate his supervisor as to: (1) fairness; (2) knowledge of job content; (3) manner of supervision; (4) manner of imparting information concerning management policy; (5) manner of handling of employee grievances; and (6) adequacy of instruction.

Employee response to the survey indicated that, while the supervisory staff were considered highly competent in the technical aspects of job instruction, proper clarification of company policy to the workers appeared to represent the greatest training need. Most of the critical comments in the questionnaires were attributable, the management concluded, to lack of effective communication.

Mutual's experience points up the fact that in order to develop personnel adequately trained in coping with the major questions that cause employee unrest (salary, promotions, job security, etc.), management must first provide supervisors with thorough grounding in the *how*, *why*, and *what* behind every major policy. Methods of employee communication must be evaluated before the proper content of any supervisory training program can be determined. "It is not enough," says Mr. Wilgus, "for supervisors to be properly trained in personnel themselves. They've got to pass it along correctly to others as well."

As a result of the attitude survey, Mutual had concrete information on which to base the content of subsequent conferences which were held between higher management and the supervisory personnel. Through these conferences, the supervisors themselves developed the company's supervisory manual, *Good Supervision*, which treats in its 10 chapters the following subjects: The Supervisor; Good Supervision; Training of Employees; Work Assignment; Personnel Policy and Organization; Salary Administration; Merit Rating; Cost Control; Methods and Improvement; Policyholder and Public Relations.

The views of members of the Life Office Management Association on the merits of employee attitude surveys are indicated by Mr. Rowland in his statement that "... These surveys are undoubtedly instrumental in determining the training needs of supervisory personnel. They have thus been found to be useful and informative in the clarification of vital policies affecting rank-and-file employees." Nevertheless, he warns that common drawbacks in the use of opinion surveys arise from lack of analytical skill in interpretation, and from improper wording in questions of a dubious or leading nature. "Management," he says, "must not make the mistake of using surveys as a substitute for information gained through personal contact. And too, we always have the problem of selecting a representative or stratified sample."

—BY DAVID LIST. *The Office*, October, 1949, p. 80:6.

● **EXECUTIVE INCOME:** A study of income groups in the United States revealed that executives as a group did little more than keep up with the general rise in income, if that. Nearly half of them were in the upper-income group (more than \$5,000 per year), and another fourth drew middle incomes (\$3,000 to \$4,000).

—*The Advertiser's Digest* 10/49

- Building a Sound Records Retention-Disposal Plan

GOOD business housekeeping implies the operation of a sound program for the control of company records. Such a program, by providing an effective mechanism for regulating the retention and destruction of records, eliminates unnecessary operations in the work routine, enables records to be handled expeditiously, saves time and space, and insures against the hazard of disposal of vital management information in periods when space shortage or staff changes make hasty record clearance imperative.

Factors that should be considered in establishing a records control program include:

1. The cost of surveying records, preparing a complete inventory of all forms and every copy of a form—current and obsolete, all card, sheet and book or binder records, every type of correspondence or other form of filed material.
2. The cost of obtaining the legal and regulatory requirements for records.
3. The cost of listing and describing every type of record, including correspondence content.
4. The cost of segregating and retaining, and the frequency of use, of non-replaceable records requiring permanent or extended safe housing.
5. The accessibility of active records to current operations.
6. The space cost for housing active and inactive records.
7. The equipment cost for continuous housing of records in office or in storage.
8. The cost of reproduction of records should the need arise.
9. The cost of storage space in original form and the cost of storage of micro-films.

A systematic procedure must provide for a retention classifying method for each class of record to facilitate segregation for a uniform and regular periodic disposal at minimum cost. A retention period must be established for each type of record, including each type of correspondence. The prepara-

tion of such a schedule, which requires a description that can be interpreted for each form or correspondence content for positive identification, requires a large initial investment.

Like all sound investments, it must pay a dividend or a return to capital stock through savings. It can. A four-drawer vertical letter or legal size cabinet holds 20,000 sheets of paper with 40 guides and 800 folders. The average current cost of a steel cabinet is \$80. The average current cost of floor space per square foot (office, not storage) ranges from \$2 to \$4. A legal size cabinet requires 3½ square feet of floor space, 4 feet for aisle space (2 feet to each side of battery of cabinets), and 3 square feet of floor space for the aisle where the drawers must be opened.

Rental cost for one legal size cabinet is \$7 to \$14 annually, and every cabinet housing useless records is an overhead cost. Thus for every cabinet housing valueless or infrequently used records or a few valuable vital permanent records interfiled with periodic useful records, a yearly rental of \$7 to \$14 is paid out. Rental for office space unfortunately is not associated with records on a firm's financial statement.

Further, the cost of one new cabinet (\$80) entered in the equipment account each year for the yearly increase of this type of records is an unnecessary expenditure. Here again the financial statement shows furniture and fixture or equipment accounts which are not associated with records.

The average wholesale and retail organization has about 25 per cent permanent vital historical management records, 50 per cent records that are important for a period of two to six

years, and 25 per cent that are useful for one year or less. Because of methods of interfiling permanently valuable records with those that have only temporary usefulness, and failure at time of filing to mark the temporary records for disposal at a designated period, many firms fail to attain the goal of preserving permanently only the 25 per cent of their records that have permanent value and insuring the orderly disposal of the remaining records whenever they cease to be of value.

The initial expenditure for the preparation of the retention and disposal schedule is an investment and not an overhead annual cost, since it can be written off as the savings are effected when the systematic procedure for records disposal has been in operation for two or more years.

Legal requirements and worth in evidence must be obtained for each organization based on its methods of conducting its business and evaluated in terms of records retention costs and possible financial loss or gain, covering such data as:

1. Rights in court action. The time limit for each state for contracts, notes, unpaid accounts, judgments. One state or all, or foreign countries, may be involved here.
2. Taxes—federal, state, municipal.
3. Patents, trade marks.
4. Licenses, franchises—federal, state, and municipal.

5. Real estate—transfers, liens, mortgages, rights of way.
6. Stocks and bonds.
7. Ordinances affecting a business.
8. Public utilities.
9. Banks and insurance.

Methods for maintaining a systematic procedure for retention and disposal of records must be worked out in detail. The initial step is the listing by exact title of each type of record described. Methods of control include: an alphabetical index to each type of record and its location, including each type of correspondence, showing retention and disposal period and a signed record to indicate when disposal has been effected; continuous reporting to records officer or administrator by offices or individuals originating a new record, new form, or new type of correspondence; a monthly, quarterly, semi-annual or yearly survey of all records by the records officer; a chronological record arranged by disposal date, which is examined each day or month or year, according to the kind of schedule, to insure that regular action is taken.

The advantages of such a program as the foregoing clearly outweigh its costs when a systematic procedure for the disposal of useless office records has been established. A well-planned program pays its own dividends.

—BY MARGARET K. ODELL. *NOMA Forum*, July, 1949, p. 10:2.

● "IF ACCOUNTANTS CAN GET CERTIFICATES and call themselves C.P.A.'s," asks your secretary, "Why can't secretaries get certificates and be C.P.S.'s (Certified Professional Secretaries)?"

Raising the standards of private secretaries has been the aim of a growing number of secretaries for several years. Leading the way in doing something about it is the National Secretaries Association, which represents some 11,000 across the country. Recently the Association's executive board got down to ways and means of establishing a certification procedure for its members.

Main job is to work out a thoroughgoing test. When the test is ready, several already recognized secretaries will take it. With the results evaluated, educators will help whip the examination into final form. Then the organization will have its really big task: lobbying to get states to put a C.P.S. on a par with a C.P.A.

—*Business Week* 2/26/49

Salaries of Office Workers in Five Midwestern Cities

WOMEN office workers in Chicago had the highest average weekly salaries among the five major midwestern cities studied in the early months of 1949 by the Bureau of Labor Statistics of the U. S. Department of Labor. Somewhat lower salaries were generally found for women in Cleveland. Salaries of men office clerical workers in the limited number of jobs for which data were available, however, were typically higher in Cleveland than in Chicago. Lower salaries for both men and women were also reported for St. Louis, Cincinnati, and Minneapolis-St. Paul. Though salaries tended to be somewhat higher in St. Louis than in Cincinnati, and in Cincinnati than in Minneapolis-St. Paul, the differences between these cities were frequently small, and in a number of jobs the relative salary positions were reversed.

Typically, average weekly salaries for women in the same job varied by \$6 to \$8 between the lowest and the highest wage city. For example, general stenographers, numerically one of the most important jobs studied, earned an average of \$41 in Cincinnati, Minneapolis-St. Paul, and St. Louis, as against \$47.50 in Chicago and \$46 in Cleveland. Average salaries for women in most of the jobs studied were between \$43 and \$47 in Chicago; \$41 and \$45 in Cleveland; and \$37 and \$42 in St. Louis; \$36 and \$41 in Minneapolis-St. Paul; and \$35 and \$41 in Cincinnati. Considering individual salaries rather than occupational averages, most of the women office workers in Chicago and Cleveland earned between \$40 and \$50; the corresponding figures for Cincinnati and St. Louis were \$35 to \$45, and for Minneapolis-St. Paul, \$35 to \$40.

—Monthly Labor Review 9/49

The Road to Success

IN a recent booklet, there appeared what seems to us to be the shortest and most practical success course ever printed. If you want to win promotion, get a better job, or make more money, you can't go wrong if you follow these rules:

1. Master your present job and improve it.
2. See it in its proper relation to the rest of the business.
3. Know all you can of the business as a whole.
4. Have a clear objective. Pick out the job you want.
5. Get the information you require to fill that job.
6. Work out plans to handle it.
7. Let your employers know that you are preparing for advancement. Not doing more than the average is what keeps the average down.

—WILLIAM WINANS (as quoted in *The Bulletin of the Office Management Association of Chicago* 7-8/49)

It's a Living

ANYONE who considers his job to be too confining is urged to read the following and feel better. This is an excerpt from apprenticeship papers issued in Australia in 1894:

"The said apprentice his Master shall serve, his secrets keep, his commands gladly do; he shall do no damage to his Master or see it done by others; the goods of his Master he shall not waste, nor give, nor lend them unlawfully to any; taverns, inns or alehouses he shall not haunt; at dice or cards he shall not play; matrimony he shall not contract."

—This Week (New York Herald Tribune)

Personnel

The Outlook in Labor-Management Relations

By PAUL H. DOUGLAS

United States Senator from Illinois

EVEN the most optimistic observers will concede that this is a period of tension in labor-management relations and of concern regarding the future course of our domestic economic affairs. At such periods, however, it is well to consider some of the underlying factors which have operated in the past and which presumably will operate in the future. Some of these factors, as I see them, should help check any tendency toward the jitters that we may be experiencing at the moment.

As a result of the material progress of the American people in the past century or so, the labor movement in this country has by now virtually abandoned any idea of changing the economic system which we call capitalism. Labor, as represented by the AFL, the CIO, and the independent unions, is in the main committed, not only in its verbal utterances but in its beliefs, to a system of private ownership. It has witnessed the experiments in Russia and Germany of rigid state control and state ownership, and it does not want big government to own business in this country.

There are still a few Communist-dominated unions, and in a few cases these are entrenched in vital industries. But their official philosophy is not accepted to any appreciable extent by the rank and file. The influence of this

group has rapidly diminished and in the period immediately ahead will diminish still further, so that we may look for the steady elimination of this element from the strategic centers of American industry.

This does not mean that American unions are prepared to accept any settlement the employers offer them. Not at all. But it does mean that they want to do their bargaining inside the framework of the system of private enterprise. They will be tough bargainers, but they are not revolutionary. Moreover, they will express the attitudes not only of "business" unionism but of "uplift" unionism, because American labor has found that it can improve its economic and spiritual position by taking part in politics. Like management, union members will continue to take part, both as citizens and through their organizations, in the affairs of the community.

There is only one thing which could bring about socialization in this country, and that is monopoly. The fundamental reason why the British have made experiments in socialization is that British industry was already largely monopolized. When the major industries of the country are each under the control of a few firms, the people are likely to conclude that, if it is a choice between private and public monopoly, the latter is the lesser evil,

From an address before the Fall Personnel Conference of the American Management Association.

because under public monopoly they will at least have a greater share in determining what the policies will be.

Now if American labor has given up any desire to socialize industry, as I believe it has, and is ready to deal with management on the basis that the major decisions in industry, the production decisions, are to be made by management, should not industry abandon its fears that the workers want to take it over?

In the past 12 years, unionism has become firmly rooted in the mass production industries of the country. The one industry in which it has not fully established itself is textiles. It is high time then for management to recognize that unionism is an institution so deeply rooted that it cannot be displaced and that any attempt to displace it would shake American life to its foundations, precipitating a struggle which could serve only the purposes of those who seek to destroy our present system.

The record seems to indicate that in the initial establishment of unions they are able to effect very real improvements in the level of wages and shop conditions. But the record also indicates that progress thereafter tends to be somewhat slow, and that over a long period of time the workers' share goes up approximately as the national income rises. In the last 10 years, it has probably gone up a little more rapidly, but for a long time there was relative constancy in the share of the national income which labor received—about two-thirds of the total. This not only has been true of different periods within our own country but has also been the case to a certain extent as between different countries at the same time. Real wages rise at about the rate that production increases.

If jittery members of management

could be made to realize that in the past industry has gone forward at this same rate, they would not be so frightened of moderate wage increases as they sometimes are.

Behind the present difficulties in the automobile and steel industries is the desire for security. These disputes could have been minimized or possibly averted altogether had we built up our governmental system of old-age security more adequately.

We started with a 1 per cent assessment on both employer and employee. In 1939, when business was still not doing too well, we decided not to increase contributions, which had been scheduled for upward revision in that year (to 1½ and 2 per cent); and in the nine years of high employment and capital earnings since then, contributions have never been increased, although the Social Security Law of 1935 contemplated that by now we would have reached a 3 per cent assessment on both contributors. Now we find ourselves with completely inadequate benefits under the law as currently operating. As a result, labor has turned for added protection to company pension plans.

It is interesting to note that the federal system is contributory and that a contributory system under federal direction is much easier to administer than one directed by private companies. Employers who favor a contributory system, therefore, would do well in the coming months to help Congress carry through a program for liberalization of benefits and an increase in the rate of contribution by both parties. For, to the degree to which general protection under the federal system can be given to workers, who move from plant to plant, the need for supplemental private systems will diminish. And dimi-

nution of the need will decrease the importance of the struggle to build up these private funds.

And so it will go on the question of illness. I certainly do not think that we should socialize the common cold, but there is the problem of the catastrophic illnesses which frequently involve great medical cost and other expenses, coupled with loss of earnings through protracted periods of disability. Thus far, those who are opposed to the Ewing plan have not come forth with any adequate method for dealing with this type of illness. But the problem is a real one—it cannot be evaded. We are going to have to consider very carefully the means of extending the insurance principle so that the many may make small contributions in order that the few may not suffer these catastrophic losses.

On the question of coming changes in the labor laws now guiding labor-management relations, it is significant that even Senator Taft proposed some important modifications in the Taft-Hartley Law. Likewise, the Administration and the unions, while believing that the Wagner Act was fundamentally sound, recognized that it was not the last word in industrial relations and made forward steps to adapt it to the realities of industrial life. There are still five fundamental points of difference between Senator Taft's supporters and those supporting the Administration on this question. Senator Taft wants: (1) universal prohibition of the closed shop, even where the workers want it and employers are willing to accept it; (2) prohibition of the secondary boycott vertically—that is, in the sequence of steps within the productive process; (3) nationalization of the rules on restraint and coercion rather than settlement by local authorities; (4) the labor injunction;

and (5) union responsibility for the acts of its agents, and union liability to court action.

A final word on national emergency strikes: A police state deals with such strikes by shooting the strikers. That was done in Nazi Germany and Communist Russia. But a democratic society must seek a solution which will protect the right of workers to leave their jobs individually or collectively and the right of the community to continuity of its essential services. You may ask, "Is it possible to reconcile these rights?" I say that we *must* reconcile them or give way either to anarchy or totalitarianism.

What, then, are the ways in which the community can protect its existence? It can protect itself by compulsory arbitration, by injunction, or by government seizure. None of these solutions is ideal. All of them have defects. It is a question of which one is the most fair in the given emergency. The ideal solution, of course, would be for labor and management to reach agreements voluntarily, on the basis of mutual respect. But if this cannot be achieved, then as the final protector of the public interest, the government will have to act, however imperfect the tools of settlement at its command, to protect the public interest.

If we can reconcile these rights, however, and if we can avoid the ravages of war or of a major depression, there is every prospect that our past rate of growth will continue into the future—that in 1980 the American people will have an average standard of living twice what it is now, with a 30-hour week, living costs no higher than at present, and with average earnings of perhaps \$100 a week. Whether these possibilities can be translated into realities depends entirely upon ourselves.

An Effective Two-Way Communication Technique

MOST industrial editors are agreed that their publications should serve as salesman for American business in general and their individual companies in particular. Reader acceptance is implicit in this goal, which the enterprising editor is constantly seeking to achieve more effectively.

One effective method of gaining reader interest is the Question Box Service. *Stet* has noted with interest the growing number of question-and-answer pages appearing in various internal company publications. These features are handled in two ways: One group leaves the job of answering questions up to the editor. Other companies feel it is preferable to have an executive take over.

In the first category fall such magazines as *Koppers News* (Koppers Company of Pittsburgh, Pa.); *Foundryways* (Belle City Malleable Iron Company and Racine Steel Castings Company of Racine, Wis.); and *The Jonvax Journal* (S. C. Johnson & Son, Inc., Racine).

President W. C. Avery answers the questions for *Party Line*, of the Mutual Telephone Company, Honolulu, T. H. Inquiries in *The Abbott Pharm-Agraph* are given replies by vice president James F. Stiles of Abbott Laboratories, North Chicago, Ill.; Potomac Electric Power Company's executive vice president J. H. Ferry is responsible for this page in *Pepconian*.

Both groups of magazines invite employees to air their questions, doubts and grievances via these pages. In return, they offer full and honest information on all subjects. Thus, a two-way channel of communication is opened.

The Question Box device, *per se*, appears to fill a need which arose with the growth of industry. In this day of large concerns with thousands of workers, personal contact between management and employees has been almost lost. Formal as this question-and-answer technique may seem, it can to some degree supplant the direct relationship between the boss and the worker which virtually disappeared as industry expanded.

—*Stet* (The Champion Paper and Fibre Company, Hamilton, Ohio) 9/49

Baby Sitter Service for Employees

HIGHLY appreciated by general office personnel at General Electric Co. (Schenectady, N. Y.) is the Baby Sitter Service that has been operating through the recreation department for the past two years. Employees interested in picking up a little extra pocket money sign up with the Service. Married employees wanting a "night out" telephone the recreation office and a sitter is secured. Users of the service must guarantee to take the sitter home after her job and pay a minimum wage.

—*National Industrial Recreation Association Newsletter* 11/1/49

MIDWINTER PERSONNEL CONFERENCE

The Midwinter Personnel Conference of the American Management Association will be held on Monday, Tuesday, and Wednesday, February 13-15, 1950, at the Palmer House, Chicago.

Paid Vacations on Increase Throughout Industry

MORE workers received paid vacations under the terms of collective bargaining agreements in 1949 than in any previous year. Many of these workers also received, for the first time, a 2-week—and in many instances a 3- or 4-week—vacation as a result of the growing tendency to grant longer paid vacations to senior employees.

A recently completed survey of nearly 1,500 collective bargaining agreements made by the United States Department of Labor's Bureau of Labor Statistics shows that better than 9 out of every 10 agreements (93 per cent) contain vacation provisions. Nearly all those with vacation provisions stipulate that those employees with long service records shall receive at least 2 weeks' paid vacation annually. Thus, three-fifths of these agreements give 2 weeks while one-third give more than 2 weeks as the maximum vacation allowed to employees with the proper service qualifications.

A comparison of the present study with one conducted by the Bureau in 1944 reflects the trend toward more liberalized vacations. Only 1.5 per cent of the unionized plants covered in 1944 gave their long-service employees more than 2 weeks of vacation with pay. By contrast, 32 per cent of the agreements containing vacation provisions in the 1949 survey granted vacations of over 2 weeks to large groups of employees.

Most of the vacation clauses in the agreements provide for "graduated" plans; that is, time off for a varying number of days or weeks depending upon the individual worker's length of service. More than 8 out of every 10 contracts were of this type. In contrast, only 1 out of every 10 provide

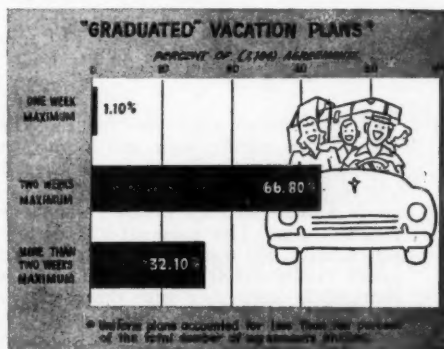
for uniform vacations of equal length, irrespective of service.

A total of 380 agreements provide for graduated plans with more than 2 weeks as the maximum time allowed. A sample of 100 of these was analyzed to determine the relationship between service requirements and the amount of vacation time granted. It was found that 87 provided 3 weeks as the maximum vacation, and 11 provided 4 weeks. The remaining two agreements provided a maximum of between 2 and 3 weeks. Fifteen years' service, stipulated in 36 contracts, was the most common requirement for the 3-week vacation. A 4-week vacation usually required 25 years of service.

A typical clause giving 3 weeks to workers with greater service follows:

Any and all employees of the employer within the terms of this agreement shall receive a vacation with full pay of 1 week, provided the employee has been in the service of the employer 1 year or more, and a vacation with pay of 2 weeks, provided the employee has been in such service 5 years or more, and a vacation with pay of 3 weeks, provided such employee has been in such service for 15 years or more.

During World War II the National War Labor Board evolved the policy of allowing, under existing wage sta-



bilization regulations, 1 week's vacation after 1 year's service and 2 weeks after 5 years of service. This pattern, with various modifications, is still evident in many of the graduated plans surveyed. Seventy-eight of the 100 agreements analyzed for service requirements stipulated 1 year of service for 1 week off, while 60 required 5 years' service for a 2-week vacation.

Many companies, however, have liberalized their vacation programs, not by increasing the maximum time allowed, but by deviating from the 1-for-1, 2-for-5 policy. Employees with less than 1 year's service are often granted shorter periods of time off, such as one-half week for 6 months of employment. Also, the length of time an employee must work to receive a paid vacation of 1 week or of 2 weeks is often lowered. For example, an increasing number of agreements provide 2 weeks' paid vacation for 2, 3, and 4 years' service.

None of the 1,473 agreements studied required employees to accept less compensation than they would normally have earned had they worked during their vacations.

Three methods of calculating vacation compensation were prevalent in the agreements analyzed. Under the first of these, the average earnings

(hourly or weekly) are determined for a past period. These averages are then applied to the hours or weeks of vacation granted.

A second type of clause provides straight-time pay for a specified number of hours—40, 80, 120, etc. A third method is to determine vacation pay by applying a percentage factor to the employee's earnings over a specified period. Such periods vary from as little as 4 months to as much as 1 year. Two, four, and six per cent of the preceding year's earnings are the figures most commonly applied to vacations of 1, 2, and 3 weeks, respectively. This method is especially convenient where workers are paid on a piecework or other incentive basis.

All agreements used in the study were in effect during the latter part of 1948 or in 1949. The agreements examined were negotiated by firms widely distributed throughout the United States and were about evenly divided between affiliates of the AFL and the CIO. Independent, or unaffiliated, unions accounted for approximately one-eighth of the total. Employment data were available for about half of the 1,473 agreements. The contracts which contained such data covered almost 3,000,000 workers.

—*Labor Information Bulletin*, October, 1949, p. 14:2.

An Idea!

TO discourage employees from making preparations to leave work many minutes before quitting time and to encourage working from "bell to bell," Rice Stix Company of St. Louis employed several advertising techniques. The company used letters to department managers and to employees in their pay envelopes, bulletin board notices, articles in the company magazine, and desk cards carrying a campaign slogan. The value of the desk cards was immediately apparent. Changed periodically, 450 double-faced cards were placed in office employee desks and on the tables in the cafeteria. Bulletin board notices and letters to employees were also changed to keep pace with the cards. The whole campaign was carried out on a dignified basis and declared to be "highly successful."

—*The Bulletin* (Office Management Association of Chicago) 7-8/49

Guiding Rules for Employee-Management Communication

A SYSTEM for transmitting and receiving information up and down through all levels is a basic requirement for any organization that depends upon human cooperation. The current need of effective two-way communication in industry is receiving increasing recognition in all quarters. Attitude surveys among foremen and employees have shown lack of knowledge and understanding of the objectives and policies of firms of which they are part. Similarly, top executives reveal by their actions and attitudes their failure to learn and understand the needs and objectives of their employees. The apparent ineffectiveness of communication in industry is today one of the most discussed problems of industrial relations.

As a result of a recent intensive study of the functions of both management and union in the total process of communication at the New Brunswick plants of Johnson & Johnson, a number of guiding principles for employee communication were developed. These were prepared by a committee and revised after being tried out in executive and supervisory conferences. They are presented below for the benefit of other companies, which may find them a valuable yardstick against which to check their own present practices.

General

1. All people on the management level must know the value and importance of communications.
2. All people in management must themselves be informed if they are to carry out their own responsibilities for communications.
3. Every action of any executive must include planning for communica-

tions as well as for other details. (For example, in replacing a man it is not enough to write a job description and job specification, recruit candidates, and interview and evaluate them. An executive must also determine who the affected parties are, what shall be told them, how it shall be told, by whom and when.)

4. The most difficult thing in communications is determining who will be affected by an event and thus who should be told. This requires that mature, stable and successful people, usually well up in management, put themselves in the shoes of others who are less secure and judge what the latter need and want to know. If one person in a department or in a unit is told, all who are equally in need of the information must be told. People who are forgotten are resentful.

The Timing of Communications

1. Timing should be such that a supervisor always hears information before his subordinates.

2. All persons on any level who receive information for passing on must share a responsibility for passing it on as nearly simultaneously and uniformly as possible.

3. If it is decided to inform people about any event, the informing should take place well in advance of rumors, gossip and conjectures. If the information deals with vacations, shut-downs, etc., it should be released soon enough to be useful to individuals whom it was intended to benefit.

4. All announcements should be timed so that the reasons given for them do not have any chance of conflicting with other information fresh in employees' minds.

Who Should Tell?

1. Telling is best accepted from one's immediate superior.
2. Where choice is possible in who should tell, always choose a person who is highly acceptable personally, and who has a record for telling things clearly, interestingly, and acceptably to the hearers.
3. While it may conflict with unity of command, management should remember that employees occasionally like to hear from their immediate superior's boss—or even from his boss.

What Do You Communicate?

1. We should tell people those facts most calculated to make them feel they belong, that they are an informed and inseparable part of their job, their department, and the company.
2. We should tell those things that will make employees and managers have a feeling both of opportunity and security, that will remove the wonderment, anxiety, and aimless questions that make for confusion, and indifference at work.
3. We should select those things to tell which people will take pride in knowing, which will help satisfy the needs for attention, status, and the feeling of importance.
4. Some say we should tell all that employees will eventually learn by themselves. They say we should do this so that we can tell the facts constructively, truthfully and shaped to whatever purpose we have in mind before others distort the facts through lack of information or for their own ends.
5. We should tell, some say, that there are three categories of facts to be communicated:

(a) Those that *must* be told. They are the things that directly or rather imme-

diately affect a man or his job. These include work assignments, flow of work in offices, methods of operation, standards of production, pay, overtime hours, rules and regulations, duties and responsibilities, quality of performance, job security, etc.

(b) Those that *should* be told. These are facts a little less directly or less immediately connected with the work operations or the physical conduct of the office or the factory. These facts include knowledge and attitudes necessary to coordinate one's work with that of other people or departments. They deal a little more with the future and with that environment which is a little distant from the job. They include: vacation pay; company services; management policy; departmental organization; the place of the job in the whole scheme of things; anticipated changes in operations, systems, or personnel that affect the man, the job, or the department.

(c) Those things that *it would be nice to tell*. These might be thought of by some as luxury items. They deal broadly with the company, its organization, its leaders, its economy, its plans for growth and expansion, the company production line, its advertising, sales, research, legal, manufacturing departments and their problems, broad company policy, the economic order, citizenship, etc.

6. Things that are an absolute necessity for telling on one level may become luxury items for people at another level. There are no hard and fast rules for determining what to tell. Good judgment and knowledge of what the people will want to know should guide.

7. In telling reasons for employee separation, good judgment must be used in order not to hurt needlessly the reputation and welfare of an employee who has been separated for cause.

How to Communicate

1. Success in communication depends upon gaining acceptance of what is said. Therefore, the communicator will carefully plan not only what to tell but how to tell it so as to gain most acceptance.

2. One of the best ways to gain acceptance is to give reasons, reasons which have meaning to those being informed.

3. Where persuasion is needed, the oral word can be more effective than the printed word. There is a better opportunity to observe reaction and adapt your presentation to gain the required end.

4. If the details are complex or if the facts are those which the employees do not want to believe, you might as well expect at the outset that you will have to follow up by a review and a retelling.

5. Keep the channels open both

ways, by inviting employee response to your telling. Things will go *down* a lot easier if you welcome a few observations and opinions flowing *up*, even unpleasant ones.

6. In planning to communicate, always seek more than one medium. A meeting which is reinforced by a letter sent to employees' homes is much more effective than an announcement which gets only one treatment.

—From *Transmitting Information Through Management and Union Channels: Two Case Studies*. By Helen Baker *et al.* Industrial Relations Section, Princeton University, Princeton, N. J., 1949. 142 pages. Paper, \$2.50; cloth, \$3.00.

Production Management

Getting Employee Cooperation for Quality Production

IN the lush days of the postwar sellers' market, quality tended to become, in too many instances, a forgotten factor in the production process. Today's buyers' market, however, is placing the emphasis on quality merchandise. This means that the time has come for management to subject its present production practices to critical analysis, to seek diligently for methods to up man-hour production, cut costs, increase efficiency, and improve product quality.

A vital determinant of the success of any company's quality control program is the human element—the attitude of the man or woman on the production line. Without the employee's interest and cooperation in quality production, statistical controls, inspection devices, and other technical methods set up by

management cannot be utilized to their fullest extent.

The importance of the human element in quality control was stressed in a recent address by E. Finley Carter, vice president in charge of engineering at Sylvania Electric Products, Inc., before the American Quality Control Society. Mr. Carter pointed out that when the statistical method of quality control was set up as a pattern during wartime production, it was found that "improved human relations from top management to the worker at the bench" were an essential part of all quality programs. It was discovered that good relations must be present at the outset "if the basic statistical method of quality control were to be put across effectively." Moreover, the worker must derive satisfaction from

his work—must have pride in what he does. "The product made grudgingly by the worker who derives from it only the monetary reward which he considers inadequate," said Mr. Carter, "is often bought by a customer who feels cheated because of inferior workmanship, quality, or performance."

It isn't enough to inspect for defects in a product after it is processed. Quality must be *built* into the product in the first place. This can be done only by a management so quality-conscious that this attitude or philosophy will filter down from top management to the worker at his bench or machine.

Given a quality-conscious management group, the next step is to set up group meetings of management, foremen and assistant foremen. At these meetings, planned discussion may center around the factors essential to secure quality production at lower cost. After the foremen's interest in quality production has been stimulated, each foreman then discusses the specific problems in his department with his workers. Such discussions should seek to stimulate suggestions on ideas from workers. If this part of the program is properly handled, management will find that by and large employees are really interested in the company's success in meeting competition. This will be evidenced by the contribution of ideas for cutting costs or improving quality—ideas that come only through actual work on the job rather than through management thinking. Often, too, these are ideas which will not come through the regular suggestion program.

These preparatory steps may then be followed up by a training program for employees conducted, for the most part, by foremen. It may be necessary

at this point to conduct a refresher course for foremen so they will be able to do a better job of presenting the program to the workers. If a company is unionized, the union committees should be asked to participate.

From start to finish, this program should emphasize the importance of the results to the worker—results affecting his job and his security. Quality of production should therefore be stressed in its relationship to the era of tough competition which companies are now entering.

Since people are generally opposed to anything which they do not understand, it is essential to start a program of this type with as much explanation as possible. Furthermore, it is good psychology to try to interest the man most affected by changes by letting him take part in the development of those changes. Few people will resist a change either openly or silently once they have partaken in that change. Even more important to the installation of a method or procedure is getting the worker himself to make the suggestion. The average plant employee enjoys a chance to participate—to create—even as the executive in the office does. Each time management gives the worker a chance to take an active part in an undertaking, employee and company are brought closer together. There is a greater realization on the part of the worker that the company's aims and his aims are much the same—good merchandise, good business, and good jobs.

No matter what a new plant program may be—job evaluation, time study, cost cutting, work simplification, quality control—it should not be jammed down the worker's throat! He should be given a chance to partici-

pate. In fact, he should be urged to participate—given a challenge.

One way to challenge the worker to improve the quality of production is to set up a contest or campaign. The Stewart-Warner Corporation has found that this method produces excellent results. An unusual feature of this firm's "Quality Shop Contest," which was completed recently, was the opportunity afforded the worker to compete either as an individual or as part of a group.

At the completion of the contest, it was announced that 333 employees were winners and would share the total "kitty" of \$2,565. The slogan which topped all others was "Quality Maintained Means Customers Retained"—a slogan which shows that the employees really got the idea of quality production and its impact on current competitive conditions. In all, 1,405 slogans were entered and there were eight slogan winners. There were 215 groups for the judges to consider as well as the total number of employees (2,065)—no little job! The winning group far exceeded the things promised in its pre-contest list of objectives. Highlights of these accomplishments included: (1) reduction of scrap from \$72 in January to \$5 in March and April; (2) no accidents during the contest; (3) winning the Good Housekeeping contest for the first quarter; (4) average of one suggestion a day for the duration of the contest.

Another company which has found the quality shop contest valuable in securing employee cooperation is the Ford Motor Company. When Ford's Quality Slogan Contest ended, there were 85 winners whose names and photos appeared in the July 15, 1949, issue of the firm's employee magazine,

Rouge News. The first prize winner at the Canton, Ohio, plant wrote: "Good work is my best habit." The top slogan in the Northern Michigan Operations contest read: "Build as though you were buying." In his explanation of his selection of this slogan, the winner wrote: "Our products should be built to be bought rather than sold. With this in mind quality of our products is assured."

An interesting method of stimulating quality-mindedness in the worker has been employed by The Raybestos Division of Raybestos-Manhattan, Inc., manufacturers of brake linings. Copies of competitors' advertisements were clipped and mounted on one sheet to show the worker what other companies were doing to get the brake-lining business. Used as a double page in the employee magazine, the *Firing Line*, and as a bulletin, this display showed the worker in no uncertain terms what the maintenance of quality meant in competing with 40 other brake-lining manufacturers.

Another way to make the worker quality-minded is to look upon him as a craftsman. In handbooks, bulletins, magazines and copy to the public as well as the worker, the word "craftsman" can be used with reference to the worker or "craftsmanship" with reference to the product. Hart Schaffner & Marx has done an especially good job of making its employees quality-minded by this method. In its employee handbook, for example, the workers are referred to throughout the pages as "craftsmen" and "master craftsmen." In addition, in the story of how Hart Schaffner & Marx clothing is made, the new employee is impressed with the importance of maintaining quality every step along the way.

A first step in any company's quality control program is a good housekeeping campaign. In many a plant that has had its dingy walls painted, storage space rearranged, aisles cleared of skids and material, a surprising result has been the improvement in employees' attitudes toward their jobs—

the development of a proper pride in the job and in the quality of the work produced.

—From *Stimulating Employee Interest in Quality Production*. The Dartnell Corporation, 4660 Ravenswood Avenue, Chicago, 1949. 9 pages, plus illustrations.

Industrial Research Pays Off

IN 1949, a normal year, giant U. S. Steel Corporation will spend upwards of \$10 million on research. If its scientists produce one major new product or process, the corporation will consider the money well spent.

Most major industrial developments result from years of continuing research. At U. S. Steel it often takes two, three, five, or more years to perfect a new one in the laboratory. Then it may be three or four years more before the new invention is in use.

The most recent big development, for instance, is the "turbo-hearth," designed to speed steel-making. The turbo-hearth combines some virtues of the traditional Bessemer and open-hearth methods of turning pig-iron into steel. Scientists of U. S. Steel's Carnegie-Illinois subsidiary, and of Jones & Laughlin Steel Corp., worked together on the idea for five years. It may be several years more before some operating difficulties associated with the new process are completely overcome and steel is being made commercially in turbo-hearths.

Here are a few other fairly recent products of U. S. Steel research, developed in time of steel shortage, but which are helping bolster sales in these days of declining steel demand:

A steel super-string for banjos and guitars that adds three half-tones to the instrument's upper register—a string which has twice the strength of wires holding up the Golden Gate bridge. Cheaper steels for the aircraft and auto industries for use in making gears and shafts. A structural steel that's four to six times as rust resistant as ordinary carbon steel, and 60 per cent stronger.

A number of schemes are under study aimed at improving operation of the blast furnaces used to turn iron ore into pig iron. For example, U. S. Steel scientists are working on better materials for lining blast furnaces. It costs as much as \$750,000 to reline one, and steel men would like to do the job not only more cheaply but less often.

Still other research involves problems like producing blast-furnace coke with less sulfur in it. Sulfur makes iron brittle.

Many more experiments seek to improve the operation of the Bessemer converters and open hearths which turn pig iron into steel. The researchers are investigating the possibilities of enriching with oxygen the air needed to support combustion in an open hearth. They calculate that oxygen would increase the heat of the flame which turns iron into steel by burning out impurities; and a hotter flame would help speed the refining process.

—JOHN BRIDGE in *The Wall Street Journal* 8/17/49

● A RECORD SUGGESTION AWARD—\$7,162—was made recently by Cleveland Graphite Bronze Company to Charles Zamiska, a senior furnace operator in Cleveland's foundry, for suggesting a better way to handle cores in the company's shell casting department. This will make a total of \$12,137 Mr. Zamiska has received since he turned in his suggestion last March. It represents 25 per cent of the savings that Cleveland Graphite Bronze has realized in the months during which his suggestion has been in operation.

—*The Wall Street Journal* 10/25/49

Tell Employees Why Costs Must be Cut!

DOES it really make any difference what employees know and think about cost reduction and its blood brother, quality improvement? Here's what some employees have to say:

"I'd been making this part for a long time when I cut my hand. So they showed me how to inspect—and I had to inspect some of my own work. I had to throw a lot of it out, too. If I'd known what the inspectors would be looking for, I could have made them better in the first place."

"One man saved the company about \$2,000 one day and the next day he almost got laid off for turning in 20 minutes' overtime."

"They changed construction of this particular item four or five times, got just short of production, and then the whole thing was called off. What *that* cost the company I couldn't even guess."

"The union claims layoffs are pre-negotiation steps by the company to scare them—it sure puts the company in a bad light."

"Cut costs? They don't know how, except by cutting people off the payroll."

Clearly it makes a whale of a difference—in dollars and cents—what employees know and think about cost reduction.

The problem of getting employee cooperation, whether for cost reduction or any other purpose, is not new and special. It's the same old problem of good management, whether times are good or bad. It's a basic principle that you can't talk to a man about what's on *your* mind, and get the benefit of his earnest consideration, without first finding out what *he* is thinking, then either doing something about it or at least relating what you have to say on those things that concern him most.

Management must understand, too, the position the union is apt to take on cost reduction proposals and recognize that what its employees think is condi-

tioned by what the union tells them. If union support is desired management must be prepared to have the union leaders share in the program, and be ready, if the cost-saving effort is successful, to see to it that the employees get their fair and equitable share out of the results achieved by their cooperation.

What must management do, then, before launching a cost reduction program which it expects will pay off?

1. Find out, or recheck, through research, what supervision and employees are thinking—what is uppermost in their minds.
2. Appraise or reappraise company policies and practices (in the light of facts revealed by research).
3. Revise basic policies as required, or create them where they do not exist.
4. Correct such operating procedures as may call for immediate action.
5. Set up methods of teaching policies, procedures, and the handling of people at all management levels, down through foremen.
6. Organize to the fullest extent possible the participation of management, employees and union leaders, and a free exchange of ideas from the worker level up, as well as from top management down.
7. Reveal to employees and then to the plant community the achievements and constructive aims of management, giving employee cooperation and union support fair credit.

Does this mean that such a program must be carried out in full before anything is done about cost reduction? Not at all. But a start must be made. Intent must be made clear and evidence of sincerity must be established. The package management has to sell to its employees is the over-all package of good management. Within that concept cost reduction can be sold—yet it can't be said too bluntly that cost reduction by itself is not a salable package.

Security is the ribbon with which our "good management" package can

be neatly tied. But it will be a complete package only if it contains, in addition to measures to reduce costs, ways and means of softening the immediate impact of necessary readjustments. If there must be layoffs, a prime case in point is the layoff procedure itself. The forthright approach is simply one that registers a concern for the employee's welfare and makes sure that his rights and privileges, as well as any investment he has made or any job benefits he enjoys, are protected. Certainly the layoff procedure should include an exit interview in which reasons for the layoff are fully explained.

Let's talk in terms of *how* to tell employees about cost reduction—remembering, of course, that it is part of the larger package of good management. Following are some good case examples:

Pitney-Bowes, Inc. (Stamford, Conn.) An incentive system for "service" employees serves as a springboard for telling employees why costs must be cut. Since bonus is based on performance against budget, detailed explanation of each month's bonus provides an opportunity to show not only how employees would have benefited immediately from better performance, but why better performance is in the long-run interest of both employee and company. Quarterly letters from the president also attack directly the problem of cutting costs, and an indirect attack is being made in the employee publication.

Bell & Howell Co. (Chicago) Most recent and most direct method of telling employees why costs must be cut was the address made by president C. H. Percy at the first annual "family night." This provided an opportunity to bring the message not only to employees, but also to their families—which can have an impor-

tant effect on the attitude of employees toward their jobs.

Snow-Nabstedt Gear Corp. (Hamden, Conn.) This profit-sharing company has long had employee cooperation in cost reduction. Three principal methods are used:

(1) Sales charts on shop bulletin boards are kept current on both a daily and a monthly basis. Employees know shrinking sales on a given item mean tougher competition and therefore costs must be lowered in order to meet it.

(2) An employee chosen by his fellow employees sits as a regular member of the board of directors. Through frequent meetings this man can keep the entire shop informed of current and long-range problems and planning.

(3) A high level of participation by employees in regular stockholders' meetings has been attained. Through the company's profit-sharing plan, 92 per cent of employees are stockholders.

United States Rubber Co. (New York) Principal activity consists of a series of meetings at which management and union representatives discuss common problems. At first sessions top management met with top union officers. Later sessions have involved foremen and local union officers. The company takes union men into its confidence—demonstrates why lower costs are needed to meet competition. The story is also being told through a house organ and films.

Industries of the Naugatuck Valley (Conn.) This association is sponsoring a series of advertisements in local newspapers. All bear on the theme of lower costs—to fight inflation, to prevent unemployment, to bring lower prices, to preserve free enterprise, etc. The highly industrial nature of the Valley means that a very high proportion of the newspaper readers reached are industrial employees or relatives of industrial employees, so community coverage is particularly effective.

—BY FRED RUDGE. *Factory Management and Maintenance*, June, 1949.

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- APPROXIMATELY three-fourths (73 per cent) of the manufacturing companies which reported in a recent *Mill & Factory* survey that they had found it necessary to lay off production workers because of current business conditions indicated that they had had personal talks with those employees to notify them of impending layoffs. A bulletin board notice is used by 14 per cent of the respondents to notify workers of layoffs.

Marketing Management

How Shippers Can Hold Down Costs

MANUFACTURERS who import and export are missing a money-saving bet if they don't know all that Foreign Trade Zones have to offer.

Three in all—New York, New Orleans, and San Francisco—these Zones are enclosed areas, within the city ports, where imported dutiable goods may be landed and stored with no customs expense or formalities. Here are some of the advantages which importers may enjoy in the Zones:

1. Goods may be stored indefinitely within a Zone, free of bond and customs duties. An owner of goods may rent warehouse space in the Zone, or set up his own warehouse and operate it himself.

2. While stored, goods may be cleaned, graded, repackaged, mixed with other foreign merchandise, or otherwise manipulated without government intervention.

This "breathing space" in the Zone before merchandise enters the customs area gives the importer many opportunities to save on operating costs. For example, he can *avoid paying duty on "shrinkage"* by storing merchandise subject to evaporation or shrinkage until ready for marketing, and then putting it through customs.

Another way to save costs is to *process imported goods into a class subject to lower rates of duty*. Thus, foreign fruit juices may be combined with domestic flavoring while in the Zone and brought into the country at lower duty than if imported in original form.

Zones may be used as places to *sort out materials that fail to meet U. S. market standards*. For example, under normal procedure, the Food and Drug Administration will sample and examine a shipment before the importer may inspect it. A whole shipment will be accepted or rejected on the basis of a sample. If rejected, it must go back to the point of origin.

In the Foreign Trade Zone, the importer gets a chance to separate his shipment into what he considers standard and substandard classes. Substandard merchandise may be brought up to par or exported without further duty.

3. Insurance costs are lower. Normally, an importer of, say, \$150,000 worth of alcohol, would have to take out a policy for \$2,650,000—the value plus custom duties and internal revenue taxes. By storing the alcohol in the Zone before going through customs, the insurance would cover only \$150,000, the price of the merchandise.

4. Storage and operating expenses may be saved. For instance, many importers cut down on the cost of maintaining inventories by storing goods in the Zones. No duties or excise taxes need be paid as long as goods are there.

In addition, the importer may *borrow against warehouse receipts for goods stored in the Zones without posting any bond*.

By storing in Zones the importer also has his materials always under his control, *saving the expense of customs*

supervision over handling that he would have in a bonded warehouse. Too, storage in Zones offers the advantage of keeping goods in any sized package, whereas goods may be withdrawn from bonded warehouses only in lump shipments, and original package form.

5. Transshipping of foreign merchandise is possible at a Zone. A Canadian whisky firm might ship its merchandise to be stored in a Zone while awaiting consignment either to the United States or foreign countries. It does not have to pay customs duty, internal revenue tax, state and city taxes, or transportation taxes, unless the whisky is consigned to the United States. If not, all it has to pay are Foreign Trade Zone charges such as storage, handling, and insurance.

For further details on Zone operation, address:

New York Foreign Trade Zone Operators, Inc., 17 Battery Place, New York 4, N. Y.

Foreign Trade Zone No. 2, Board

of Commissioners, Port of New Orleans, New Orleans, La.

Foreign Trade Zone No. 3, Port of San Francisco, San Francisco, Calif.

As an auxiliary service to Zone users, the city of New Orleans offers the International House and the International Trade Mart. The former serves as a club and clearinghouse for international traders. Members (1,900 of them) pay dues; but services, including library, information on licenses, etc., are free.

International House boasts it acts as business matchmakers for importers and exporters, helps set people up in business, helps diplomats' wives with their shopping.

International Trade Mart is a modern marketplace for international products. Many countries and companies have offices and showrooms there, staffed with salesmen who can move merchandise out of the Foreign Trade Zone.

—*Modern Industry*, March 15, 1949, p. 82:3.

Retail Stores Surveyed on Current Employment Practices

PERTINENT information on current employment practices of the nation's department and specialty stores has been revealed in the results of a survey recently completed by the Personnel Group of the National Retail Dry Goods Association, according to George L. Plant, Manager of the Association's Store Management and Personnel Groups. The study includes data submitted by 41 stores in 28 key trading areas concerning the general Fall retail employment picture and Christmas employment planning.

Replying to the survey questions on Christmas staffing, 27 out of the 41 reporting stores indicated that their Christmas employee staffs would not be built as heavily nor as early as last year.

Most of the contributors reported that there would be little deviation from the dates of their 1948 official Christmas openings, 22 stores indicating plans to start off their Yule promotions prior to November 15th and 17 stating that their Christmas promotional period will begin on or following that date.

A majority of respondents said they expected no difficulty in securing extra Christmas help, and that they would rely on the usual methods in recruiting such employees—viz., classified ads, display ads, radio spot announcements, house organ notices, contacting former employees.

In their answers to a survey question on the status of the present retail employment market, 26 stores replied that it was much easier; nine stores indicated that it had eased considerably, while only 6 retailers answered that it was still tight.

Using Samples to Build Acceptance and Sales

AS a means of improving and lowering the costs of distribution, some of our finest marketing brains are developing remarkably efficient mass sampling techniques for introducing new products and stimulating sales of old ones. In many cases ingenious sampling techniques have been devised for products that might appear to be unsampleable. The two broad classifications of this popular sales tool are (1) the free sample and (2) the sample for which something is paid.

Low-Cost Giveaway. This procedure is widely used for cigarettes, chewing gum, candy and many other low-cost items. Attractive young women, frequently in uniform, are employed to hand out samples on the streets or at special gatherings. This method insures that samples will not be given to individuals who obviously are not prospects and reaches its peak in efficiency with the vendor who comes through a train and gives each passenger one salted peanut. Then on his return trip, he offers bags at a price.

Demonstrator Giveaway. Another version is the employment of demonstrators in stores to hand out samples to taste or take home. This method is extensively used for edible products.

Mailed Sample. The mails are used to distribute giveaways by makers of razor blades, office supplies, cosmetics, and the like. This is the most inexpensive type of giveaway but is only appropriate for certain types of products.

Coupon Sample. Many of the evils of the "throwaway" sample are overcome by use of the throwaway coupon, which must be presented at a store in exchange for a sample. Other means of coupon distribution are newspapers,

mail or package inserts. Recently a Chicago newspaper assisted in a unique sampling project. A maker of a new paper cleaning "cloth" inserted a page of this new material suitably imprinted in the newspaper. Housewives were invited to wash the ink out of the sample and then try the cloth out. Here is mass sampling at its best.

Cross-Sampling. A sample of one product is enclosed in the package of another product made by the same manufacturer.

Radio Offer. While greatly expanding the market to be reached, this method of offering free samples makes any selectivity of audience impossible.

Distributor Sample. A clever adaptation was devised by a manufacturer bringing out a new toothpaste. To each of 75,000 retail druggists he sent a free display card mounting two 25-cent and one 50-cent tube of paste. The retailer could sell the samples and keep the dollar or he could try out the product himself. Concurrent advertising campaign influenced the public to ask for the new product.

Group Sampling. This method has proved particularly efficient in selling kitchen utensils. The salesman invites several married couples to the home of one of their friends for a free dinner which he prepares in the utensils with food he has provided. After the meal, he makes his pitch and usually chalks up a high percentage of sales.

Product Test. Small samples enable prospects to test certain products. A swatch of woven glass curtain was mailed out and recipients were asked to test its fireproofness by holding a match to it. It would have been an even better advertisement if the swatch had been made into a bookmark or something of permanent usefulness.

Charging for samples has certain advantages. It sifts out the free collectors and the something-for-nothing brigade. Proponents say a man will give a sample a far more serious test if he has paid for it than if he gets it for nothing. This is particularly true of technical products, many of whose makers will not furnish a free sample even to their largest prospects, preferring to sell the item on a full money-back basis.

Five-Day Free Trial. This form is used in two ways: (1) where the customer pays outright on the understanding that if he is not entirely satisfied in five days, his money will be "cheerfully refunded"; and (2) where he is permitted to use the product for a designated period, at the end of which he returns it or pays for it. Certain books are widely sold by the former method, while some easily installed household appliances, dictating machines and the like are sold by the latter.

Rent-Then-Buy. Television sets are currently being moved by being rented to prospects at a low weekly rental, with the understanding that should they decide to buy, the rental already paid will be credited against the price. A very small percentage of returns is reported.

Double-Your-Money-Back. While this is a variation generally used for soup or cigarettes, it was successfully

employed some years ago in the industrial field by a maker of valves.

Sample-and-Return. Another device is to offer to take back the unused portion of a package if the buyer is not pleased and to return the full purchase price, used currently by a leading cigarette maker. A patent medicine company is combining five \$1 bottles and a sixth free one for \$5. The purchaser is permitted to use one bottle—and if not satisfied may return the remaining five and get his \$5 back. Another company packages a large bottle at the regular price and a smaller one at no cost. The smaller unit may be used, and if not satisfied, the sampler gets his money back by returning the regular-size bottle unopened.

The Newspaper Coupon. This is usually worth 10 or 15 cents against the price of the product or it may entitle the bearer to buy two of the advertised items at a special price. Coupons may be distributed also as throw-aways, package inserts, magazine offer, or the offer may be broadcast.

The Dispenser Sample. A company making a perfume that sells for \$100 an ounce plugged its \$15 size by offering a sample consisting of one-eighth of a dram in a gold-plated, ball-point dispenser at \$1.49, to overcome reluctance of buyers to spending \$15 for a small bottle of perfume they might not like.

—By LOUIS BRENDEN. *Printers' Ink*, June 10, 1949, p. 25:4.

● IT COSTS THE SAME TODAY to reach people through advertising as it did in 1940. Magazine color rates per page per thousand are \$3.57 today and were the same in 1940; milline rates of daily and Sunday newspapers are \$2.77 today as against \$2.68; cost per thousand radio homes covered by major networks is lower. These costs are in current dollars, which have a purchasing power for other products of only 59 per cent. In terms of constant dollars, therefore, the cost of reaching people through advertising is down about 40 per cent. Moreover, real per capita purchasing power is up about 36 per cent since 1940. The average individual represents a market for 36 per cent more units at present price levels, yet it costs no more to tell him about a company's product.

—ARNO H. JOHNSON in *Sales Management*

Financial Management

Some Tax Problems of Incentive Compensation Plans

COMPANIES that try to give their executives more financial incentives than arise from old-fashioned salary raises these days must tread uncertain legal ground. For the tax consequences, to put it mildly, are uncertain. This is especially true in the case of corporations closely held, as are most in the U. S. The doubts date back to 1945, when the U. S. Supreme Court, assisted shortly thereafter by the Treasury, divested the stock-option incentive of its capital-gain charms (*Commissioner v. Smith*). All too often since then tax advisers, after evaluating an incentive scheme, have been able to say only "maybe." Obviously the law should be clarified. But in what direction, and by what means?

One method of clarifying the law would be for the Treasury to issue a manifesto stating its position on all controversial questions in this field. Indeed, it has considered such a step. If it does not take it, the law will develop only by the normal judicial process, the slow marking of a line by means of pinpricks, each representing a decision in a particular case. Until that line has been fixed, or until Congress or the Treasury speaks, the "maybe" of the tax adviser can be converted only into a somewhat hedged "yes" as to certain incentive plans. Let us look at the circumstances that inspire and restrict these plans.

Consider first a highly valued 45-year-old vice president. Competitors of his company flash before him visions of greener pastures. To keep him, the company must satisfy his legitimate

ambitions, among them the desire to retire at age 60. He is married and earns \$50,000 a year, but the costs of living up to his job, raising a family, and carrying life insurance for dependents absorb almost everything left him by the tax collector. At 1948 tax rates, he would net about \$11,100 from a \$25,000 raise, assuming that his outside income is fully offset by exemptions and deductions. If he salts away the \$11,100 annually for 15 years in bonds yielding $1\frac{1}{2}$ per cent after taxes, he will have about \$185,000 at age 60. Similarly invested and drawn down in equal annual installments for 15 years, that will provide about \$14,000 a year (largely tax-exempt)—a comfortable cushion.

But what about the president over him? He is 55, married, and earns \$100,000. Out of a \$25,000 raise, taxes would leave him only about \$8,400. Over 10 years, his accumulation would be only \$89,500. Any considerable increase in rates (reducing both the amount saved and the annual yield) would make his old rocking chair seem really hard. It would be far better for him if the company agreed to pay him the \$25,000 annually after retirement—provided that Uncle Sam would not tax him before he received payment. The \$8,400 a year would then jump to \$18,700, assuming no change in rates or marital status.

The corporation might readily agree to such an arrangement were the Treasury to allow it a current-income tax deduction. But the company can get that (while the employee gets a pres-

ently tax-free right to future income) only through a pension, profit-sharing, or annuity plan that complies with Section 165 of the Internal Revenue Code. That section, however, provides that contributions and benefits shall not discriminate in favor of officers, shareholders, supervisors, or highly compensated employees. Thus executive retirement income may not be disproportionate to benefits payable to other employees. But to increase benefits all along the line is hardly practical. So Section 165 turns out to be a blind alley. What can be done?

A retirement income plan whose primary aim is incentive will, if it does not satisfy Section 165, require the company to sacrifice all its current deduction. (The company could get such a deduction only if the employee were to pay a present tax on future benefits, which would destroy the incentive.)

From the employer's viewpoint, the best arrangement would be a voluntary pension beginning at a stipulated age. The payments, if reasonable in amount, would be deductible when made. But the employee cannot be expected to accept such an arrangement. His interests require that the pension must be provided for by contract. And here lurks danger for the employee.

"Taxable income" is a constantly expanding concept. Currently within its limits are various types of economic betterment and "non-material satisfactions." Thus, the cost of a paid-up, non-assignable annuity contract, delivered by an employer to an employee as compensation, is taxable income even though benefits are postponed. The courts have never squarely held taxable an employer's present, unconditional promise to make future payments, but they have created doubt as to its immunity.

When the pension promise is made, therefore, the employee's rights must be conditional. Similarly, provision must be made to prevent them from becoming unconditional later—for example, at retirement. And the conditions must be genuine. The Treasury is too worldly-wise to permit deferment of taxes when the pension is subject to cancellation only on some remote contingency, say election of the employee to the United States presidency.

B. F. Goodrich, Goodyear Rubber and Gimbel Brothers, Inc., are among the companies that have tackled the problem. The Gimbel plan is typical. It ties in with a one-year employment contract, automatically renewable until notice of termination is given. Compensation is a base salary and such bonus as the company decides to pay. In addition, over a 15-year period (beginning when for any reason employment ceases) fixed amounts are payable for each year served under the contract and its renewals. These payments are subject to two contingencies: (1) that the employee perform his services during the one-year employment term; and (2) that, lacking the company's consent, he engage in no competing business within a specified period after his employment ends. Moreover, contingent payments are reduced enough so that, together with the employee's business earnings, they do not exceed 75 per cent of his average salary for the final three years of his employment. If death occurs, contingent payments already earned continue for the full period to a designated beneficiary.

Under this plan events that may occur up to the day of death can cut down or eliminate the right to contingent payments. The employee there-

fore will probably never be taxed on the full value of the deferred payments.

Many companies faced with problems that might be solved by such a plan already have in operation one or more plans under Section 165. If the establishment of a non-Section 165 plan were to upset an existing Section 165 plan covering the same executives, the consequences would be serious. Not only would the tax exemption of a trust established under the Section 165 plan be withdrawn, but the combination of present deduction for the employer and tax deferral for the employee would be broken up. It cannot be denied that the deferred-compensation plan is designed to effect the very discrimination forbidden by Section 165.

Nevertheless, while the courts continually declaim that a taxpayer may not accomplish by indirection what he cannot do directly, it would seem that a Section 165 plan probably cannot be infected by a non-Section 165 arrangement. Congress itself has said so. The anti-discrimination provision was enacted in 1942. A House Ways and Means Committee report stated that, in determining whether a plan is discriminatory, all plans of an employer that purport to qualify will be considered as one. But it also reported that an employer may continue trusts that do not qualify under the law "without disqualifying other trusts which do satisfy such requirements." If pre-existing non-exempt trusts cannot disqualify an exempt plan, subsequently created arrangements, with or without trusts, should not have that effect.

All these problems are aggravated for the closely held corporation. For example, since no substantial stockholder is likely to compete with his

company, non-competition may be ineffective as a contingency. Furthermore, the amount of the payments is likely to be carefully scrutinized by the Treasury, which is quick to disallow as deductions excessive portions of compensation payments to stockholder employees. If the employee is a controlling stockholder, the Treasury may contend that payments are disguised dividends.

The problem of assuring the employee that the money will be there when it is needed is easily solved. The company purchases an endowment policy on his life, with provision for installment payments to begin at retirement age. The policy belongs to the company, which pays all premiums and receives the proceeds. Premiums are not deductible. If the income option is elected before maturity, there is no tax on the gain at maturity. Installment payments are not taxable at all—or are only partly taxed, until total cost has been recovered. They provide a source for the deferred payments, which are deductible. Should the employee forfeit his rights, the company may use the endowment policy as it sees fit.

It is quite possible that, without any Congressional action, clarification may be achieved by judicial disapproval of more and more types of incentive plans. Under the circumstances, the suggestion of Harry Silverson, a New York lawyer, is worth noting. The U. S. bar has not thus far wholeheartedly endorsed the idea, and the writer, as Mr. Silverson's law partner, may be suspect when he advances it. Yet it has its objective supporters both within and without the legal profession, and has recently been introduced into Congress by Representative Clifford Davis of Tennessee.

This plan, in effect, would permit

every working taxpayer to create his own pension fund, consisting of voluntary savings out of earned income, invested in special non-assignable 2 per cent U. S. government bonds. Amounts so invested would be excluded from gross income. The maximum that could be set aside each year would be 15 per cent of the earned net income, or \$10,000—whichever is less. Upon redemption of the bonds, their proceeds would be included in income. To prevent tax avoidance, the plan forbids the offset of losses against proceeds from these bonds.

This plan has the merit of sim-

plicity and should not prove very costly to the Treasury. While it is true that some revenue would be lost in the early years of operation, this loss would tend to level off as bonds are redeemed. Its author further argues that the economy would become more stable, since some tax collections would be shifted from boom years to those of depressed activity. Most important, its benefits would be open to all earners now subject to income tax who display ability and will to save.

—By JOHN P. ALLISON. *Fortune*, May, 1949, p. 143:5.

New Jersey Agency Study Provides Interesting Cost Figures

RESULTS of a recent survey conducted by J. J. Smick, of Woodward & Fendiller, for the New Jersey Association of Insurance Agents furnish some interesting facts and figures about current agency income and expenses. The survey indicates that the average commission ratio or income to the agency is 21.4 per cent of written premiums. Of this total, 6.6 per cent goes for salaries of management, 4.2 per cent for salaries of office employees, 3.9 per cent for all other office expenses, 3.3 per cent as commissions and salaries to solicitors, sub-agents and brokers, and 1.7 per cent for all other sales, advertising, etc. Total expense runs 19.7 per cent, leaving 1.7 per cent for profit, contingencies, and capital expense.

More than 100 small, medium, and large-sized agencies were included in the study, as well as individuals, partnerships and corporations. Few differences in cost factors were noted as among the three latter groups. For example, management salaries for agencies operating as individuals were 6 per cent, for partners 6.6 per cent, and for corporations 6.9 per cent. In general, however, the partnerships had a lower expense, especially in connection with office salaries. This is because partners often share the detail work in the office and thus hold down overhead.

Top scale of commissions is not paid by all companies; below average is paid on workmen's compensation, and commissions on graded business further reduce the average, the study discloses. Thus the average return is 21.4 per cent, rather than a higher figure like 25 per cent, often mentioned as agency remuneration. If the average expense loading for a particular line is 45 per cent—and it is more on some and less on others—agents receive in commission less than half the total expense figure.

—*The National Underwriter* 4/28/49

AMA FINANCIAL MANAGEMENT CONFERENCE

A conference of financial executives will be held by the American Management Association on Thursday and Friday, December 1 and 2, at the Waldorf-Astoria, New York City.

A Survey of Unions' Financial Reporting

IF business men were asked what they thought of unions' financial reporting, their answers would express every possible shade of opinion, ranging from "Few unions, if any, issue financial reports" to "A great majority of unions now make available reliable, detailed financial reports to their members and to the public." That this phase of union activities, like so many others, is so little understood is a matter of vital concern to all those interested in building better labor-management relations.

To secure more definitive information about union financial reporting was one of the objectives of a recent research project of the Harvard Business School.* Following are some of the salient findings of the study:

How important is union financial reporting?

Any institution—labor, business, or political—which has important economic and social power implicitly accepts certain definite responsibilities to the public. One of its primary responsibilities has been succinctly described by Madame Frances Perkins as follows:

... The public expects its service institutions to exercise the utmost order and exemplary procedure and efficiency in handling what some have called other people's money. It expects a scrupulous accounting for money, regular independent audits of all monies, including dues and assessments. ...

Financial reports constitute one means of discharging responsibility in the handling of other people's money. The growing interest in unions caused by their increasing influence upon the

American economic, political, and social environment places added emphasis and significance on union financial reports.

Organized labor and management have mutual responsibilities in connection with financial reporting. Business today must have the confidence of the public, but to gain that confidence, the two parties that comprise business must have confidence in each other. Though both management and union leaders are trying to improve and increase the distribution of their financial reports, neither party—except in a few isolated cases—has fully accepted that each should exchange with the other the facts that affect each other. Reasons alleged for reluctance to exchange facts boil down to the claim of "management prerogatives" and "union rights" or the contention that "the information can be used against us." The fact remains that cooperation is not built on guesses or rumors but on mutual exchange and mutual understanding of each other's problems.

Of course, labor and management are each interested to know whether the other is conscious of and trying to meet its responsibilities to the public. But while labor unions have long looked at management's annual reports, few in management have looked at the union's financial reports as one means of getting facts to understand the union and its problems.

How prevalent is union financial reporting?

Financial reports are not new to the trade union movement, nor are they the result of recent state or federal legislation. Most union officials are required by union constitutions—specifically 170 out of 172 constitutions

* During the course of the project, the author interviewed 27 representative national or so-called international unions in 15 basic industries; studied over 100 financial reports; and read over 150 official union publications in reference to financial reporting.

examined—to provide their membership with financial reports that are audited by independent accountants. As a matter of fact, financial histories of as many as three-fourths of the national unions in the AFL and the CIO could be written from the detailed financial reports they have issued.

The International Typographical Union (AFL), for instance, has been publishing an annual financial report since 1853 and a monthly financial statement of cash receipts and disbursements since 1889. Most of the older national unions have issued annual reports since the first year of their existence as unions. The rest go back as far, usually, as the passage of the Wagner Act in 1935 or the time when they first secured substantial recognition as collective bargaining agents by the various companies in their industry.

In general, unions accept the idea of making reports available to the public. The majority of unions, because of the expense involved in wide distribution of financial reports, are willing to make their reports available only to the extent of furnishing copies in response to direct individual requests.

What is the nature of union reports?

The typical union financial report consists mostly of the certified statement of the independent certified public accountant. Very little in the way of narrative, pictures, or charts is to be found. The ten or more pages which make up the certified statement generally disclose in detail the union's assets and liabilities, the union's receipts (dues, initiation fees, fines, charter fees, sales of supplies, assessments, interest received on investments, refunds, and payroll deductions), and the union's disbursements (officers' salaries and expenses, clerical expenses, strike costs, organizing salaries and ex-

penses, contributions, and other expenses).

The amount of detail in union reporting is the primary characteristic of all union financial reports. This is usually so because the unions want to assure their membership and the public that they are honest and have accounted for every penny received and spent.

Business men are accustomed to use balance sheets and income statements to judge the financial condition and the operations of a company. However, this kind of financial analysis is not entirely applicable to the union's situation.

Unions are not in business to make profits but rather to spread the "gospel of unionism as a way of life." The benefits of unionism do not accrue to the union but to membership directly in terms of higher wages, shorter hours, and better working conditions as well as in the advantages of "extra-curricular" union activities—i.e., education, insurance programs, union-owned housing, cooperative stores, and so on. Since union benefits are not distributed as are dividends to stockholders by corporations, it is difficult to reflect in a financial statement the results of a union's operations during any specific period.

Are union financial reports reliable?

Of 172 national union constitutions examined, 126 provide for audit of the union finances by outside independent accountants (generally certified public accountants), 41 provide for audit by unions' auditors or by the membership, and only five have no constitutional provision at all for audit. It is significant to note that, though in all the legislation passed by the federal and state governments concerning union financial reporting, there is no requirement of an audit by independent prac-

ticing accountants or otherwise, yet over 75 per cent of national unions have voluntarily accepted audits of their records by outsiders. Moreover, accountants with experience in auditing unions' reports have stated, both in formal audit reports and in personal interviews with the author, that the union officers and their staffs have been cooperative and have not restricted their independence. In fact, many have expressed surprise at the degree of cooperativeness received and the extent to which unions have "opened everything to us."

In addition to providing for audits, unions have taken great care and precaution to insure the proper internal control of funds. Most unions interviewed provide for the opening of mail by one person and the recording of receipts by another. All cash received is deposited in the union's name, in banks covered by the Federal Deposit Insurance Corporation. All expenses are paid by check, and vouchers are used

for approval of payments; prior approval from the executive board is usually required for large expenditures. Moreover, most unions have all the officers and employees who handle funds bonded.

The need exists for more adequate reporting by unions of their operations and financial condition, not only for their own internal administrative use but for the purpose of presenting a more adequate picture to the membership and the public. The problem which the unions face is the implementation of that policy. Since management faces the analogous problem that a large part of the public still has an erroneous impression of business profits, perhaps management and labor can give each other constructive criticism—which, incidentally, both sometimes find hard to take—for the development of more meaningful and understandable reports.

—BY GEORGE KOZMETSKY. *Harvard Business Review*, January, 1949. p. 13:11.

Insurance

Effect of Uniform Retirement Benefits on Pension Cost

ONE of the most interesting developments in the pension field in recent years has been the rise of union demands in certain industries for uniform retirement benefits. The amount of pension demanded generally has ranged between \$75 and \$150 a month, in addition to Social Security. The figure most frequently mentioned is \$100 a month.

A flat amount of pension does not reflect differences in pay received by

employees during their working career, nor does it recognize variations in length of service. In most cases, however, the pension is scaled down proportionately if an employee fails to complete a minimum period of service, usually 20 years, at retirement.

For instance, if an employee completes only 15 years of service at 65, he would be retired at a pension of \$75 instead of \$100 a month. But often union members prefer to have their

retirements deferred for another five years so that they may qualify for a full pension. From the viewpoint of costs, this is not a serious matter, since the reserve required to pay the full pension beginning at 70 is only about 10 per cent greater than the amount needed to pay three-quarters of the pension beginning at 65. However, the value of the pension plan is reduced in that retirement of the older employees is deferred.

As yet, there are only a few retirement plans in existence which provide a uniform benefit. Those which have been adopted have not been in operation long enough to pass the test of time. Yet they represent a challenge which many employers must be prepared to meet in the near future. It is not the purpose of this article to pass judgment on the merits of the issue, but only to examine the cost effect against the background of more orthodox arrangements.

In some industries today, the average annual earnings of hourly-paid employees closely approach \$4,000. If the average length of service of covered employees were 30 years, the cost of a plan providing a flat \$100 a month would be approximately the same as that of another plan which grants an annuity of 1 per cent of annual wages for each year of service (1 per cent of \$4,000—\$40 times 30—\$1,200). It would also be roughly equivalent to a plan which provides a pension of 30 per cent of pay (30 per cent of \$4,000—\$1,200). However, such a high rate of annual pay does not prevail in every industry, nor is it likely to prevail at all times in those companies where it is common today. If the pension—as in the usual type of plan—is related to changing rates of pay, a drop in the wage level results in a proportionate

lowering of pension costs. But, if a plan provides a uniform benefit of \$100 a month, or some other definite amount, the pension cost remains fixed unless the number of employees is substantially reduced. This lack of flexibility can become a serious handicap, since a lowering of annual wages usually accompanies reduced business activity when lower costs are vital to a company striving to maintain its competitive position in the market for its product.

Most of the unions that demand pensions of \$100 a month expect that the employer will pay the entire cost of the program. There is, however, no valid reason why such a plan cannot be financed on a contributory basis. Of course, it would not be equitable to have all participants contribute a stated percentage of earnings. Some would contribute for 20 years, others for 40, but all would receive the same pension. A flexible schedule of contributions, related to years of service, would provide a fair solution. This is how it might be developed: Assume a participant enters the company's service at age 45. If he is entitled to an annuity of \$1,200, beginning at 65, it may be assumed that he earns \$60 of his pension during each year of employment. If it is desired that he contribute three times the annual benefit (as is required in many plans), he should pay \$180 annually toward the cost of the plan. Take another participant who enters service at 35 years of age. During his 30 years of service, he earns a benefit of \$40 annually. If he is to contribute in the same ratio, he must pay \$120 each year.

A uniform benefit plan may provide for the deduction of the Social Security benefit from the pension. Natu-

rally, this provision reduces the employer's cost to a large extent.

The employer who is faced with a demand for a uniform retirement benefit should think beyond current negotiations. Since pension plans now seem to have a permanent place in bargaining, it is not likely that the adoption of even a generous flat benefit will settle the pension issue for all time. It is conceivable that sooner or later demands will be made for addi-

tional benefits for those employees whose pay or length of service is above the average. Then the flat benefit would become a minimum pension and as such \$100 a month seems rather high, unless Social Security is deducted.

—Reprinted from *Central Hanover Pension Bulletin*, August, 1949, published and copyrighted for Central Hanover Bank and Trust Co., New York, by Prentice-Hall, Inc.

States Improve Workmen's Compensation Laws

BILLS to amend state workmen's compensation laws have been introduced in practically all the 42 state legislatures which have convened so far this year.

To date, 13 of these States have passed one or more amendments to liberalize the benefits or to improve other provisions of these laws: Georgia, Idaho, Indiana, Montana, New Mexico, New York, North Dakota, Oregon, South Dakota, Utah, Washington, West Virginia, and Wyoming.

Included among the enactments are provisions to increase the weekly benefits, the total compensation payable, medical aid and funds for burial expenses; to extend coverage to all employers; to cover all occupational diseases or enlarge the list of diseases subject to coverage under the law; to reduce the waiting period; and to set up a second-injury fund.

Twelve of the 13 states which have enacted workmen's compensation amendments have provided for increases in the weekly maximum and minimum benefits allowed. The most substantial increase was provided by West Virginia, which raised its maximum weekly rate for all types of injuries from \$18 to \$25 and boosted the weekly minimum for temporary total disability cases from \$10 to \$15. Three other states, New Mexico, South Dakota, and Utah, raised the maximum weekly benefit to \$25. As a result more than half the states now provide a weekly maximum of \$25 or more for one or more types of injuries.

In seven states more liberal allowances for medical aid have been provided. In three—Montana, Utah, and West Virginia—the amount was doubled. Utah also increased the amount allowed for an artificial limb from \$150 to \$450 and for an artificial eye from \$50 to \$450.

—*Labor Information Bulletin* 5/49

FALL INSURANCE CONFERENCE

The Fall Insurance Conference of the American Management Association will be held on Thursday and Friday, December 15 and 16, at the Hotel Drake, Chicago.

Pension Rolls Mount for Employers

HOW long do workers stay on a pension list? That's a question employers are asking—now that union demands frequently include retirement pay.

You can get an idea from a recent report by the Canadian Pacific Railway Co. It shows the age distribution of the 9,636 retired workers who were on Canadian Pacific's list of pensioners at the end of 1948: Under 60 years of age, 439; 60-65, 1,192; 65-70, 4,594; 70-75, 2,101; 75-80, 850; 80-85, 345; 85-90, 90; over 90, 25.

Canadian Pacific retired 1,224 workers in 1948. It dropped 524 names because of death or other causes, thus had a net increase of 700 pensioners for the year. That brought the total on the roll to double the number at the end of 1942, more than three times the number of pensioners in 1937.

—*Business Week* 4/23/49

Expenditures for Hospital Care Show Sharp Increase

THE nation's expenditures for private hospitalization facilities have increased 140 per cent since 1942, the total being \$1,564,000,000 in 1948, according to U. S. Department of Commerce estimates. Payments to physicians have increased 100 per cent from \$1,072,000,000 in 1942 to \$2,141,000,000 in 1948.

In determining the adequacy of group life benefits, it is well to consider the following cost increases taken from the survey: Expenditures for funeral and burial services increased 82 per cent from 1942 to 1948, while cemeteries and crematories received 27 per cent more, and 110 per cent more was spent for monuments and tombstones.

—*Employee Benefit Plan Review* Supplement 9/49

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, AS AMENDED BY THE ACTS OF MARCH 3, 1933, AND JULY 2, 1946

OF THE MANAGEMENT REVIEW, published monthly at New York, N. Y., for October 1, 1949.

State of New York } ss.
County of New York }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared M. J. Doohier, who, having been duly sworn according to law, deposes and says that he is the Editor of THE MANAGEMENT REVIEW and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily, weekly, semiweekly or triweekly newspaper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the act of August 24, 1912, as amended by the acts of March 3, 1933, and July 2, 1946 (section 537, Postal Laws and Regulations), printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, American Management Association, 330 West 42nd Street, New York 18, N. Y.; Editor, M. J. Doohier, 330 West 42nd Street, New York 18, N. Y.; Managing Editor, None; Business Manager, Lawrence A. Appley, 330 West 42nd Street, New York 18, N. Y.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding 1 per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) American Management Association, 330 West 42nd Street, New York 18, N. Y.; Lawrence A. Appley, President, 330 West 42nd Street, New York 18, N. Y.; James L. Madden, Treasurer, 1 Madison Avenue, New York 10, N. Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

M. J. DOOHER, Editor.

Sworn to and subscribed before me this thirteenth day of September, 1949.

(Seal)

MARIE SQUILLACIOTTI, Notary Public.
(My commission expires March 30, 1951.)